The Introduction of REITs to the South African Property Market: Opportunities for Fund Managers

by

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ABSTRACT

On 1 May 2013, real estate investment trusts (REITs), a listed property product, had legislation about it introduced in the South African property market. Prior to the introduction of this REIT legislation, property unit trusts (PUTs) and property loan stocks (PLSs) were the two predominant types of listed property investment products in South Africa. However, both the PUT and PLS are subject to uneven regulation and taxation, and they lack flexibility.

The REIT legislation was introduced to eliminate some of the problems of the PUTs and PLSs, by creating: a more unified tax treatment of listed property companies, more stringent regulatory requirements and uplifting the South African property market to a level that is internationally competitive. It is therefore considered valuable to empirically investigate whether or not the introduction of the REIT framework into the listed South African property market will be advantageous to investors, and whether or not it would lead to improvement in the efficiency, regulation and taxation of the listed property market.

A questionnaire was used to collect primary data to analyze the research problem. The questionnaire used a Likert scale format that consisted of 20 questions. There were a total of 58 useable respondents, each of who fell into 1 of 5 occupational categories. The questions were divided into 4 unifying themes and the findings were analyzed according to these themes.

From the analysis of the responses it was found that the REIT legislation is perceived as a welcomed and suitable introduction to the South African listed property market. We could also infer that REITs allow for a more favorable tax dispensation, improved regulation, increased international competitiveness and enhanced liquidity within the listed property market. Overall, there is a perception that investors, especially fund managers, would find it potentially advantageous to include South African REITs or a higher proportion of such REITs in their investment portfolios.

DECLARATION

I, Hannalisha Naidoo, declare that the research work reported in this dissertation is my own, except where otherwise indicated and acknowledged. It is submitted for the degree of Master of Management in Finance and Investment in the University of the Witwatersrand, Johannesburg. This thesis has not, either in whole or in part, been submitted for a degree or diploma to any other universities.

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Signature of candidate Date

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Chapter 1: Introduction

This introductory chapter provides the background to the study and the research problem, which includes a discussion of what a REIT is, a brief history of REITs and the different types of REITs. This is followed by a discussion of the study's problem statement. Consideration is given to the purpose of the study, and an overview of the methodology used to conduct the study is provided. The significance of the study and the limitations are reviewed. Finally, an outline and orientation of the study chapters are provided as a round up of this roadmap chapter.

1.1 Background of the study

One can achieve indirect investment in property by investing in property investment vehicles (National Treasury, 2008). Many different types of investment vehicles exist but they all are geared towards achieving similar objectives: to achieve a safe, quick and simple means to invest in property, providing improved liquidity and providing a reliable stream of cash flows and wealth growth on investors initial investments (National Treasury, 2008). Real estate investment trusts (REITs) stand out as superior property investment vehicles because they enable investors to hold highly illiquid real estate assets while simultaneously enjoying the marketability and liquidity advantages of traditional stock market assets (Zietz et al, 2003).

Today REITs operate in more than 20 countries, and listed real property companies function in many more, resulting in substantial worldwide growth of publicly traded real estate equity market capitalization (Ibbotson, 2006). Real estate investment trusts (REITs) were first created in 1960 in the United States to help make the benefits of investing in large-scale and well-diversified income-producing real estate widely available to individual investors. There has been a dramatic growth in the REIT sector over the past decade highlighting that REITs have become a recognized investment vehicle for gaining exposure to the real estate asset class (Anderson et al, 2005).

The global real estate securities market is substantial; there are more than 400 real estate securities in both emerging and developed markets, with a total market value of $1.5 trillion (figures as at 31 December 2012 based on the FTSE EPRA/NAREIT Global Real Estate Index) (Cohen and Steers, 2013). Research shows that REITs display low correlation relative too domestic, international, technology stock and bond markets and have the potential to provide competitive expected returns even in a recessionary environment (Rosen, 2003).

According to Chandrashekaran (1999), REITs do appear to offer substantial diversification benefits at least during certain time periods, such as following up-moves in the REIT Index, therefore dynamic asset allocation strategies that invest in REITs are likely to achieve superior risk and return profiles. This suggests that REIT stocks may have a significant role to play in dynamic asset allocation strategies (Chandrashekaran, 1999).

Lee & Stevenson (2006), found that real estate strongly possessed the element of consistency in optimized portfolios. In their study over time periods ranging from 5 to 25 years, real estate consistently had positive allocations for most levels of portfolio return, irrespective of whether real estate is used to reduce risk or enhance returns. According to Feldman (2003), investment in REITs appear to provide an efficient vehicle for small and medium-size institutional investors to develop a significant real estate allocation and a means for larger investors to better diversify their real estate portfolios.

A further structural element that may benefit the performance of REITs is that REITs are exempt from government taxation if they distribute 90% (in the U.S) of their net operating income as dividends (Feldman, 2003). According to Byrne & Lee (2005) there is an increased desire by fund managers in the UK to seek out indirect investment vehicles that have lower costs and higher liquidity, yet still offer returns equivalent to direct investment, REITs are one of these securities.

1.1.1 What is a REIT

REIT is an acronym for a real estate investment trust. A REIT is a corporation or trust that uses the pooled capital of numerous investors to purchase and manage income property and or mortgage loans or any other types of products related to real estate (Frost et al, 2005). REITs are developed with the same structure of a unit trust, that is, funds are pooled together from a large number of investors and are used to invest in income generating real estate. The proceeds are then shared amongst the investors. Bodie et al. (2008) define a REIT similar to a close-end fund.

Few individual investors are able to directly own or finance commercial real estate properties; this is due to the high level of both resources and knowledge that is required (Connor and Jackman, 2000). The REIT security allows investment in real estate without the considerable long-term commitment, which is often typical of other real estate investment alternatives (Connor and Jackman, 2000). Investing in REITs gives anyone the opportunity to benefit from the income generated from real estate investments, without having to purchase or finance the actual property.

REITs primarily generate income by owning and operating income producing real property. REITs may own different types of buildings such as residential property, shopping malls, apartments and complex buildings, hotels and medical premises (NAREIT, 2013c). REITs may also invest in real estate related securities, cash or fixed deposit and whole loans. Just like stocks REITs are tradable on major exchanges. There are several benefits that REITs are able to offer over direct real estate investment. REIT shares are very liquid, unlike traditional real estate.

REITs allow partial ownership of non-residential properties, such as hotels, shopping centers, and other commercial or industrial real estate. This enables more investors to participate in these property markets. REITs also enable investors to invest their funds in securitized real properties, mortgages and mortgage-backed securities (Lee and Chiang, 2004). REITs are granted special tax considerations, which make them more attractive to some investors. Normally a REIT regime will offer exempt tax status to investment companies or other vehicles, which meet certain criteria as to ownership and investment portfolio, on the basis that the vehicle then distributes all, or most of its profits to shareholders (KPMG, 2010). In many but not all cases, the REIT must also be listed (KPMG, 2010).

REIT's also qualify for a special tax status so that there is just a single taxation at the investor level (Ernest and Young, 2012). REITs can be considered to fall under the same category as unit trust funds that are professionally managed. The organizational structure is similar for both REITs and unit trust funds. Just as unit trusts pool funds from investors by issuing new shares on the stock exchange or from private investors through private placements, REITs can pool funds for investments through an initial public offering (IPO) through a stock exchange if the REIT is listed or from private investors as in the case of private REITS.

The legal system of each country will set out certain investment and regulatory requirements for a real estate company to form a REIT and these companies need to strictly adhere to these requirements in order to qualify to achieve REIT status (Chan et al, 2012). Majority of these countries (except Australia, Japan, Turkey, Canada, and the US) place restrictions on the level of leverage used by the REIT and all countries (except Malaysia where it is not stipulated) have dividend payout requirements (Chan et al, 2012). All countries, except Thailand, permit REITs to invest in foreign markets and receive favorable tax provisions, although in South Korea, these tax provisions were only extended to Korean REITs (K-REITs) in 2005 (Chan et al, 2012).

1.1.2 History of REITs

REITs were created in the United States on 14th September 1960, when the President at the time, Mr. Eisenhower, passed the REIT Act, which was contained in the Cigar Excise Tax Extension of 1960 (NAREIT, 2010a). The passing of the Real Estate Investment Trust Act of 1960 granted tax-exempt status to REITs and after a slow start, REITs took off in the late 1960s and the early 1970s (Han and Liang, 1995).

Some of the first REITs to be developed included the Washington REIT, Continental Mortgage Investors and Bradley Real Estate Investors. The National Association of Real Estate Investment Trusts (NAREIT) was also established in 1960 to represent REITs and publicly traded real estate companies, by providing investors with the latest news and information surrounding these investments (NAREIT, 2010a). In 1965 the first REIT was listed on the NYSE, it was called Continental Mortgage Investors (NAREIT, 2010 a).

During 1968 to 1973 there was a rapid growth of REITs in the United States fueled by the increased demand for construction and development financing and the inability of the existing financial institutions to meet this demand (Han and Liang, 1995). Most REITs made very high returns in this boom period because they were mostly financed by funds borrowed through short-term commercial paper and bank notes and the spreads between the rates for construction and development loans and short-term interest rates were large (Han and Liang, 1995). The year 1969 also marked the start of the global spread of REITs, with the first European REITs legislation being passed in Netherlands (NAREIT, 2010a).

During the 1970s to 1990s REITs had a relatively low level of institutional participation, however, from the 1990s there was a reversal in this trend (Zietz et al, 2003). NAREIT introduced the first REIT index to track the performance of REITs and the Tax Reform Act of 1976 was passed, which allowed REITs to be structured as corporations in addition to being business trusts (NAREIT, 2010 a).

The Real Estate Downturn of 1989–91 resulted in an abysmal downturn in the real estate industry, causing both stock prices and house prices to plummet (NAREIT, 2010a). During the early and mid-1980s there was increased investment by banks, insurance companies and thrifts in real estate properties and mortgages, leading to increased real estate values (Ghosh et al, 1998). Increased uncertainty about future cash flows, coupled with declining income, led to reduced market values during the late 1980s and early 1990s (Ghosh et al, 1998). When real estate values declined, lenders and investors realized significant losses (Ghosh et al, 1998).

The 1990's saw a recovery in the REITs market. Publicly traded REIT, New Plan, was the first REIT to reach a market capitalization of one billion U.S dollars (NAREIT, 2010a). President Clinton passed the '5 or fewer' rule, which made it easier for pension plans to invest in REITs. This rule prohibits a REIT from advantageous tax status if more than 50% of the REITs shares are held by five or fewer shareholders (Crain et al, 2000). In 1997 the NAREIT Real-Time REIT Index was created and the European Public Real Estate Association (EPRA) was established, both which showed the growing interest of REITs as an investment choice (NAREIT, 2010a).

REIT Exchange Traded Funds (EFTs) were introduced to the financial markets in 2000, iShare Dow Jones U.S Real Estate Index Fund was the first REIT ETF to be launched (NAREIT, 2010a). In 2001 Euronext, NAREIT and EPRA joined forces to launch the EPRA/NARIET Global Real Estate Index and S&P also added the first REIT, Equity Office Property Trust, to its index (NAREIT, 2010a). The growing need for more indexes and information about REITs was an indication of the success of REITs as an asset class.

In 2005 the Asia Pacific Real Estate Association (APREA) was founded to provide the global real estate market with information about the publicly traded Asia Pacific real estate companies (APREA, 2013). In 2006, during the annual NAREIT convention, the first Real Estate Equity Securitization Alliance (REESA) meeting was held, Real Property Association Canada, the Property Council of Australia, the Association for Real Estate Securities Japan, NAREIT, the British Property Fund and APRERA are all members (NAREIT, 2010a).

In July 2008 the REIT Investment and Diversification Act became a law in the United States (NAREIT, 2010a). This law allows for the simplification of certain provisions applicable to real estate investment trusts enabling more efficient mechanisms for REITs to buy and sell assets (NAREIT, 2010a). The Organization for Economic Cooperation and Development (OECD) also changed their model tax treaty so that it allows for a uniform tax treatment for all cross-border REITs around the world (NAREIT, 2010a). This change was a result of an international effort by NAREIT and its REESA partners.

In 2009, EPRA, NAREIT and FTSE added an emerging market index to their global index, this new index was a result of the expansion of REITs into emerging markets and the need for investors to have up-to-date information about the performance of these assets (NAREIT, 2010a). The financial crisis of 2008 had a devastating impact on the global economy, however well established REITs remained resilient during this economic downturn and investors still responded favorably to real estate companies that managed to maintain strong balance sheets (NAREIT, 2010a). The year 2010 marked the 50th year since the introduction of REITs in 1960, this highlighted the accomplishment and sustainability of REITs as an investment asset class.

1.1.3 Types of REITs

Standard and Poor/Dow Jones Indices use the REIT/RESI Industry Classification Hierarchy, to classify REITs. It applies to all indices that carry the Dow Jones brand and was created to satisfy the needs of all investors and analysts that require information on REITs (S&P Dow Jones Indices, 2012). According to the REIT/RESI Industry Classification Hierarchy, REITs can be classified into one of three categories: Equity REITs, Mortgage REITs and Hybrid REITs and each of these categories can be further broken down into subcategories (S&P Dow Jones Indices, 2012). Below in Table 1, Table 2 and Table 3, the definitions of each category and the definitions of the sub categories according to the REIT/RESI Industry Classification Hierarchy have been tabulated (S&P Dow Jones Indices, 2012):

Table 1

Equity REIT	
Definition: These REITs own and operate principally income-generating real estate.	
Category	Subcategories
Industrial/Office: REITs focus their investments on offices, industrial property and mixed industrial/office property.	Office: Investments focus on office buildings. Industrial: Investments focus on industrial buildings. Mixed Industrial/ Office: Focus on both office building and industrial building, with no preference to one or the other.
Retail: The primary focus off these REITs is on retail property.	Malls: Primary investments in malls. Large enclosed shopping centers that consist of mainly national brand stores. Strip Centers: Primary investments in strip centers. Generally open air facilities that have a few large national brands but predominately local stores. Factory Outlets: Primary investment in factory outlets. Generally large brand stores that sell merchandise at discounted prices. Other: These are REITs that do not fall under the subcategories above or that are a combination of the above listed subcategories.

Category	Subcategories
Residential: These REITs focus their investments on residential property.	Apartments: These REITs invest in primarily multi-family apartments. Manufactured homes: Investments are primarily focused on manufactured home communities for individual households.
Hotels and lodging: REITs focus on acquiring hotel and lodging properties.	
Self-Storage: REITs focus their investments on self-storage property.	
Diversified: REITs invest in a combination of residential properties.	
Health Care: REITs focus their investments within the healthcare industry, in properties such as hospitals, medical laboratories and hospices.	
Specialty: Specialty REITs focus their investments in investments other than the ones listed above, this is because they are difficult to place within a specific class.	Lease: These REITs lease properties using long-term leases where the tenants are responsible for the maintenance and upkeep of the property. Other: These include REITs that invest in dealerships, railroads and towers. Very few REITs actually fall under this category.

Source: S&P Dow Jones Indices, 2012

Table 2

Mortgage REIT	
Definition: These REITs lend funds directly to real estate owners and/or operators or indirectly by acquiring mortgages or mortgage backed securities.	
Categories	Description
Commercial	Commercial REITs lend funds to invest in mortgages or mortgage backed securities, were the underlying asset is commercial property, to owners and operators of commercial property.
Residential	Residential REITs lend funds to invest in mortgages or mortgage backed securities, were the underlying asset is residential property, to owners and operators of residential property.

Source: S&P Dow Jones Indices, 2012

Table 3

Hybrid REIT
Definition: These are REITs that invest in a combination of equity, mortgages and mortgage-backed securities.

Source: S&P Dow Jones Indices, 2012

REITs can be also classified by organizational structure, that is, traded REITs, non-traded REITs or private REITs (Hussen et al, 2012). Public and exchange-traded REITs benefit both lenders and investors because REITs must comply with the relevant regulatory standards and framework for the quantity and specific types of information they disclose therefore making it simpler to compare relative performance (Sheppard, 2012).

Traded REITs have to prepare a public prospectus to issue new REIT shares and provide regular financial statements to investors and other stakeholders (Hussen et al, 2012). Traded REITs can be bought or sold on a formal exchange or a brokerage firm. Public REITs that are exchange traded provide shareholders with the advantage of investments that are liquid and that have an identifiable value at any time (Sheppard, 2012). Both traded and non-traded REITs are registered with the regulatory agency of the country in which the REIT was established (Hussen et al, 2012).

Non-traded REITs provide the same benefits in terms of information reporting, but the shares lack a source of liquidity for investors, other than the REIT itself repurchasing shares upon a redemption request or upon a liquidity event such as an IPO or the REIT selling itself in its entirety (Sheppard, 2012). Non-traded REITs are registered, however they are not listed or traded on an exchange (Hussen et al, 2012).

Private REITs avoid the expensive and often burdensome regulatory requirements of public corporations. The downside is that many investors may avoid companies for which detailed disclosures are not available consequently making the access to equity capital more limited (Sheppard, 2012). Private REITs are not registered with a regularity agency, such as the Securities Exchange Commission, but are sold via private placement offering and will therefore have to follow the rules of issuing a private placement, for example U.S REITs that are sold via private placement will have to adhere to Rule 506 of the SECs Private Regulation D (Hussen et al, 2012). Private REITs also face the same liquidity problems present with non-traded REITs (Sheppard, 2012).

1.2 Problem Statement

The recent introduction of the REITs framework has created an atmosphere of uncertainty, for both investors and real estate companies. Will the REITs structure be suited to the South African listed property market? The REIT structure was introduced very recently to the S.A listed property market. This has resulted in very limited information about the performance and potential risks of REITs in S.A. Real estate companies face the uncertainty of whether or not their businesses will benefit from the new tax dispensation and regulatory requirements of the REIT format.

Investors, especially fund managers, face the uncertainty of whether investing in South African REITs will enable them to earn superior returns relative to investment in other asset classes and whether the new tax implications and regulatory requirements of REITs will benefit them or not. Investors will find it imperative to know the level of investor protection that the new legislation provides. There is also the risk that the relevant stakeholders, including the regulators, policy makers, investors and property companies may make decisions, which are not necessarily well informed due to the inadequate data with which to buttress their decisions.

1.3 Purpose of the study

The South African listed property market was in need of a change in structure to make it more efficient and appealing to investors (National Treasury, 2008). The REIT legislation is intended to result in important changes, such as a more unified tax treatment of listed property companies, more stringent regulatory requirements and uplifting the South African property market to a level that is internationally competitive (NAREIT, 2013c). The objective of this study is to analyze and evaluate the implications of the introduction of the REIT legislation into the South African listed property market.

A further objective of this study is to attempt to gain an early insight into the perceived effectiveness of the REITs legislation from a selected sample of informed and interested individuals. All stakeholders, especially investors and listed property companies, in the listed property market will be impacted by the introduction of the REIT legislation and therefore any attempt to gain early insight into this new listed property structure is imperative.

1.3.1 Research Questions

1. Is the REIT legislation suitable and a welcomed introduction to the South African listed property market?
2. Are the changes in regulations and tax dispensation, brought about by the new legislation, an improvement to the efficiency and attractiveness of investment in the listed South African property market?
3. What are the potential drawbacks of the new REIT legislation?
4. What are the current and future potential benefits of the new legislation?

1.4 Data and Methodology

The research is conducted by using primary data research methods in the form of a survey questionnaire. A sample of stakeholders within the listed property market, including property analysts, owners/directors of property companies, investors, accountants and lawyers and interested parties are surveyed. The questionnaire was delivered both online via an email link as well as printed and directly handed to participants. The responses of the participants are statistically analyzed to extract significant research findings. A more detailed description of the research method is provided in Section 3.1.

1.5 Significance of the Study

The Property Unit Trust (PUT) and Property Loan Stock (PLS) structures are currently the two predominant types of listed property investment structures in South Africa (SAICA, 2013). Both the PUT and PLS structures are subject to uneven regulation and taxation. While both the PUT and the PLS are subject to the listings requirements, only the PUT is subject to Financial Services Board (FSB) regulation (SAICA, 2013). The PUT is also less flexible in nature relative to the PLS, however the PLS lacks tax certainty (SAICA, 2013).
The REIT legislation is intended to result in important changes to eliminate some of the problems of the old property structures, by creating a more unified tax treatment of listed property companies, more stringent regulatory

requirements and uplifting the South African property market to a level that is internationally competitive (NAREIT, 2013c).

The objective of this study is to provide stakeholders, especially fund managers, with a better understanding of REITs and the implications of its introduction into the S.A property market, by exposing them to a holistic view of REITs and its performance, benefits and disadvantages. This will enable stakeholders to gain insight into what can be expected in terms of the regulatory implications, risk, return and tax implications, therefore allowing them to make more informed decisions when investing in listed property.

A further benefit of this study is that the REIT legislation is very new to the South African listed property market thus limited secondary data on the performance of S.A REITs is available. In order to gain a better understanding of the legislation research must be conducted.

This study gives stakeholders and interested parties an insight into the potential implications of the REIT legislation in the S.A listed property market, based on the perspective of informed respondents to the survey study. Therefore this study contributes to the information available on S.A REITs, by providing valuable primary data and analyzed findings. Future research can be developed using this research, to broaden the understanding of the new legislation and to improve the methodologies and ideas of this early research.

1.6 Limitations

Since REITs have only been introduced to the South African real estate market on 1 May 2013, limited data is available on the performance of South African REITs. This presents a challenge because there is limited secondary data available to compare the findings of the study with. Also, the study will base its findings and conclusions on primary data. The data collection process involves using a questionnaire. Due to time and resource constraints the sample size may be limited.

1.7 Outline of the Study

This particular chapter provides an introduction to the study and background information to the research problem. A discussion of the purpose of the study is provided and the research methods to be used are briefly explained. In addition, the significance of the study and a brief look at the limitations are discussed.

Secondly, a literature review will be conducted and the findings will be summarized. This will involve a review of scholarly journals, books, articles, theses, websites and papers that have already conducted research on REITs both in South Africa and globally. This will help provide the areas of research that have not been covered adequately and areas of research in which information gaps exist.

Chapter 3 of the paper will highlight the research design and methodologies used to analyze the data and information. This will include an explanation of how the data will be collected and the statistical techniques used to analyze the data. The nature and form of the data will be discussed. Moreover, the limitations of the study and any ethical considerations that may have arisen and need to be explained will be discussed.

Chapter 4 of the paper will highlight and discuss the results of the survey including a summary of responses to the survey and an analysis of the responses based on four unifying themes, namely Theme 1: Questions related to the new legislation and it suitability; Theme 2: Questions related to the new regulation and tax dispensation of the legislation; Theme 3: Questions related to the potential drawbacks of the newly introduced REIT legislation; Theme 4: Questions related to the current and future potential benefits of the new legislation.

Chapter 5 will provide a conclusion to the paper, including a summary of the findings, conclusions and suggestions for further research. Finally Chapter 6 will provide the bibliography of the research report.

Chapter 2: Literature Review

This chapter aims to provide an enriched understanding of the REIT legislation. It starts by examining the economic fundamentals of the property market and funnels down to a review of REITs in South Africa. The economics of real estate markets, the relationship between financial markets and real estate markets and the financing of real estate markets will initially be discussed. Then a more in-depth examination of REITs will be conducted, such as the advantages and disadvantages of REITs, global REIT legislation, and finally REITs in South Africa.

2.1 The Economics of Real Estate Markets

In economic terms a real estate market can be understood as the market where the supply of and demand of real estate meet and where real estate is traded (Maier and Herath, 2009). The real estate market is normally segmented into various submarkets along different dimensions, with the most important dimensions being the type of real estate, space and time (Maier and Herath, 2009). Many different types of real estate exist, each of which create different or unique challenges and issues for investors and analysts. The main types of real estate, each of which are quite heterogeneous, include housing, shopping malls, office space, industrial buildings and infrastructure real estate. Undeveloped land is also special type of real estate.

The determinants of property prices are quite similar to those of other assets (Zhu, 2003). These determinants are the expected service stream, which is, consumption service or expected future cash flow (rents) and the required rate of return, which is the long-term interest rate plus the risk premium, as the discount factor (Zhu, 2003). Consequently, in the long run, real estate prices depend on demand factors, such as national income and average discount rates, and on supply factors, such as the cost of construction, land availability and the quality of the existing stock (Zhu, 2003).

Real estate assets form an integral part of the overall economy. Changes in real estate value or transaction volume can have consequences in virtually every sector of the economy. For example, a decline in real estate sales may ultimately lead to a decline in real estate prices (Maier and Herath, 2009). This in-turn will lead to the value of homes to decrease, irrespective of whether they are being actively sold or not (Maier and Herath, 2009). The volume of real estate equity loans available for homeowners will decrease, and consumer spending will decline (Maier and Herath, 2009).

Changes in the real estate market contribute significantly to the future trend of the overall economic activity in majority of the countries within the global economy (Apergis and Lambrinidis, 2011). The quantity as well as the quality of investments in the real estate market tends to affect the economic development of the entire economy (Apergis and Lambrinidis, 2011). Consequently, a mounting crisis in the real estate market would be very critical for the future of the economy, in terms of employment, income growth and productivity growth (Apergis and Lambrinidis, 2011). Housing also contributes significantly to family self-sufficiency and community development, both of which are pivotal to social stability in society (World Economic Forum, 2011).

2.2 Factors Influencing the Demand for Real Estate

The demand for real estate services comes from individual households, businesses and government (Maier and Herath, 2009). Their combined expenditure generates demand for residential, commercial, office and industrial real estate. The principle factors influencing the national demand for real estate include changes in population, employment, and income (Maier and Herath, 2009). Some of these changes, such as shifts in the employment among occupational groups or the decline in fertility rates produce long term trends in real estate development and other movements, particularly business cycles and actual or anticipated price increases, cause short-run swings in demand for various types of real estate (Maier and Herath, 2009).

There is a close relationship between the overall house price trend and the income growth of a country (Walter et al, 2007). In this sense, housing is a normal good, therefore demand increases when incomes rise and provided that the supply side cannot react as quickly as the demand side, this rising demand must translate into rising prices (Walter et al, 2007). Apart from these two main drivers, interest rates, returns on alternative assets and institutional factors such as home ownership rates or transaction costs have an impact on housing demand and also house prices (Walter et al, 2007). All these factors help explain the strong or weak performance of housing markets.

2.3 Factors Influencing the Supply for Real Estate

The availability of skilled labor and materials will affect the supply of housing that can be built (Floyd, 1981). The national government can also affect the supply of real estate through regulatory controls; for example, the controls can affect the amount of money available for real estate loans, which are essential for building new structures (Floyd, 1981).

Real estate transactions are high in value and therefore require the availability of mortgage funds at a reasonable cost (Floyd, 1981). The supply and cost of financing are therefore important factors in determining the quantity and timing of new additions to real estate supply and the economic and financial policies of government have a significant impact on this (Floyd, 1981).

2.4 Macroeconomic factors effecting real estate

The main macroeconomic indicators for the real estate market are gross domestic product (GDP) per capita, GDP growth trend, population, median age, population growth, financial market development, legal system and average inflation. Liow et al. (2006) examines macroeconomics influences on global real estate markets and finds that GDP, inflation and interest rate are the most significant macroeconomic indicators.
GDP is important because it provides information about the size of the economy and how an economy is performing (Callen, 2012). The growth rate

of real GDP is frequently used as an indicator of the general health of the economy (Callen, 2012). A high GDP indicates favorable economic conditions and that should positively drive investments in REITs. Consumers spend their income in renting or owning houses or investing in new buildings or offices.

Government spending is also an important factor. Governments spend on infrastructure and when unfavorable economic conditions occur, it reduces government spending and it therefore should negatively affect investments. Another imperative factor in the real estate market is the interest rate (Callen, 2012). The real interest rate is a preferred indicator because it removes the effects of inflation allowing the borrower to get a better indication of the real cost of the funds.

The real interest rate is the percentage increase in purchasing power that a borrower pays a lender. It is plausible that fluctuations in interest rates have a direct impact on housing demand, as the affordability of homes improves when interest rates fall (Walter et al, 2007). For private households the monthly mortgage payment is the central factor for the household's ability to finance real estate (Walter et al, 2007).

2.5 Real Estate Markets and Financial Markets

Housing is a key provider to social stability and economic growth in the developing world. Therefore, the availability of well functioning housing finance markets that increase the affordability and supply of housing to individuals is a key policy issue for many policy-makers. The real estate market is like the stock market, with its peaks and troughs always appearing to make perfect sense in retrospect (Nair, 2012). Both markets reflect the economy of a country and provide good investment opportunities, however, the risks must also be understood along with the opportunities (Nair, 2012).

The determinants of property prices are quite similar to those of other assets. These determinants include the expected service stream, which is the consumption service or expected future cash flow (rents), and the required rate of return, which is the long-term interest rate plus the risk premium, as a discount factor (Zhu, 2003). The stock market is an easily available and useful source of transactions-based data with which to analyze real estate market risk and return (Gyour and Keim, 1992). The stock market also appears to accurately reflect information about the risk and returns faced by different types of real estate firms (Gyour and Keim, 1992). Good policies, governance and standards are the most important drivers shaping the global real estate financial market.

The presence of a relationship between the stock market and the real estate market lies in the area of market integration or segmentation (Ling and Naranjo, 1997). The degree of integration between real estate markets and stock markets indicates the extent to which both markets are driven by similar economic factors, such as expected and unexpected inflation, industrial production, per capita consumption and T-bills yields (Ling and Naranjo, 1997). The degree of integration also indicates the extent of substitutability between the two markets, that is, changes in either one of the markets are expected to affect prices in the other market (Apergis and Lambrinidis, 2011).

The literature based on the relationship between stock markets and real estate markets is mixed. One group of findings support the view that there is a connection between the two asset markets, while a different group asserts that the two markets remain independent and therefore there is no such connection. According to Peterson and Hsieh (2003) who analyzed the monthly returns on equity and mortgage REITs over the period July 1976 to December 1992, risk premiums on equity REITs are significantly linked to risk premiums on a market portfolio of stocks and to the returns on mimicking portfolios for size and book-to-market equity factors in common stock returns.

Peterson and Hsieh (2003) also found that the mortgage REIT risk premiums are significantly linked to two bond market factors and three stock market factors in returns. Anderson et al (2005) show that while correlations between REITs and large and small capital stock indices have decreased over time, the correlation between REITs and small capital value stocks has remained significant. Karolyi and Sanders (1998) found that both the bond and stock market risk premiums capture the predictable variation in REIT returns and REITs have comparable return predictability to stock portfolios.

Okunev et al (2000) use nonlinear causality tests and found a strong unidirectional relationship running from the stock market to the real estate market, which is even consistent in the presence of any structural breaks. Some research provides support in favor of the presence of a relationship between the two asset markets under analysis within the framework of capital asset pricing modeling. Miles et al (1990) find that the real estate returns are far more consistent with risk-return characteristics that have been reported for other asset classes. Gyourko and Keim (1992) find similar results.

According to Apergis and Lambrinidis 2011, causality tests show that although the two markets are connected, the level of deviations between these two can be wide-ranging, exhibiting a very low degree of mean reversion. Grissom et al (1987) and Geltner (1990) show evidence in favor of segmentation of the two markets. Quan and Titman (1999) find that with the exception of Japan, the contemporaneous relation between yearly real estate price changes and stock returns is not statistically significant.

Ross and Zisler (1991) investigate the relationship between REITs and the S&P 500 index in the US, based on both linear and non-linear causality tests, and shows that the findings are mixed. Okunev and Wilson (1997) use an alternative approach to test whether the real estate and stock markets are cointegrated. Both a nonlinear test and other conventional cointegration tests were conducted. The cointegration results support the understanding that the real estate and stock markets are segmented, however, the nonlinear model supports the view that the markets are fractionally integrated.

2.6 Financing of the Housing Market

The demand for real estate finance is derived from the demand for owner-occupied homes, which in turn depends on financial, demographic and institutional factors such as the rate of household formation, affordability, income levels, and the ease of purchasing and registering property (Warnock and Warnock, 2012). Real estate finance acts as an imperative contributor to social stability (World Economic Forum, 2011). On the supply side, the provision of housing finance can be split it into two components. Firstly the provision of housing finance by a lender that has ample funds available and secondly the mobilization of funds within an economy so that lending institutions have access to funds (Warnock and Warnock, 2012).

Real estate finance represents the largest investment that majority of households will ever make. According to the International Finance Corporation, in developing countries, personal housing accounts for around 75% to 90% of household wealth and around 15% to 40% of monthly household expenditure (World Economic Forum, 2011).

Financing of the housing market also contributes significantly to macroeconomic development and acts as an imperative contributor to social stability (World Economic Forum, 2011). According to the IFC, investment in real estate accounts for 15-30% of aggregate investments worldwide (World Economic Forum, 2011). Housing finance also contributes to and enables the development of the housing sector and its related industries, which account for 9% of all jobs in the world (World Economic Forum, 2011).

The financial sector plays a fundamental role in providing and channeling financing for investments in real estate. Highly developed financial systems tend to have bank portfolios with high exposure, directly or indirectly, to the real estate sector. Financial institutions, capital markets and institutional investors are all sources of long-term finance (OECD, 2013). The major financial institutions such as life insurance companies, saving and loan associations, mutual savings banks and commercial banks are the main sources of real estate mortgage financing, however individuals and various private lenders also represent an important source (Behrens C.F., 1952).

Regulation such as Basel III may well encourage banks to continue observing conservative real estate lending standards (Schwarcz, 2011). When banks follow conservative lending standards, either voluntarily or due to regulation that applies only to banks, non- banks have an opportunity to begin competing in real estate loan origination (Schwarcz, 2011). Banks have traditionally been a key player in the financial system, transforming savings into long-term capital to finance private sector investment in real estate, however, over time; two key changes have developed in the structure of the financial system (OECD, 2013).

Firstly, the banking model has advanced, becoming increasingly dominated by wholesale markets and in particular derivatives, to the detriment of the more traditional deposit taking and lending activities (OECD, 2013). Secondly, disintermediation and the development of capital markets has led to a shift in the structure of the financial sector, with institutional investors such as pension funds, insurance companies, mutual funds, and, most recently, sovereign wealth funds, also becoming dominant players as providers of long-term capital (OECD, 2013).

Several countries, such as Denmark, the Netherlands, New Zealand, Australia, Sweden, Switzerland, Ireland, the United Kingdom and the United States, have quite significant mortgage markets that are larger than 80 per cent of GDP, while many others have mortgage markets that are less than 10 per cent of GDP (Warnock and Warnock, 2012). REITs and listed real estate companies finance their real estate portfolios with a diversified capital structure of debt and equity, inferring the use of some leverage (Ibbotson, 2006).

In recent times, equity REITs on average have maintained a ratio of debt divided by total market capitalization of between 40% and 50%, (Ibbotson, 2006). Equity REITs generally have more conservative leverage ratios than privately owned real estate and therefore benefit from reduced interest rate risk (Ibbotson, 2006).

Most REITs experience reduced borrowing costs when interest rates decline, while rising interest rates tend to increase borrowing costs, thus affecting profitability. Typically, lower real interest rates have reduced the cost of capital for all real estate investors and contributed to the overall increase in real estate values (Ibbotson, 2006). The rise in real estate values increases the value of a REIT's assets (property), the market's assessment of the REIT's future cash flows, and finally, the market capitalization of REITs and listed property companies (Ibbotson, 2006).

2.6.1 Securitization of the real estate market

Disintermediation involves the removal of banks as financial intermediaries. Shadow banking is the term frequently used to refer to the disintermediated financial system, which consists of effectively all forms of financing that are not bank intermediated (Schwarcz, 2011). Shadow banking embodies structured finance and securitization, in which financing is indirectly raised by special-purpose entities ("SPEs") and financing and financial services provided by other non-bank financial intermediaries, such as finance companies, hedge funds, money-market mutual funds, real estate investment trusts (REITs), security lenders engaging in repo lending, and investment banks (Schwarcz, 2011).

Real estate securitization describes the financing of property through the securitization of real estate cash flows and property values without the bank as a lending intermediary (Breidenbach, 2003). The bank however will take part in the transaction, not as the lending institution, but as the arranger of the financing and will therefore only earn structuring fees (Breidenbach, 2003).

Securitization is very important to both housing recovery and to commercial real estate because it is an important means of enabling mortgage-loan originators to regain liquidity to make new loans (Schwarcz, 2011). Hedge funds are becoming progressively significant originators of mortgage loans. The use of REITs has long been concentrated in U.S. markets, however they are becoming increasingly important in the global market.

The recent propensity of investors, specifically large institutions, to reduce allocations to traditional asset classes in favor of dedicated real estate investments, often implemented with REITs, increases the overall demand for REIT equities (Ibbotson, 2006). It is likely that market forces are at work to transform more direct real estate investments into securitized REIT-like investments to help meet growing investor real estate allocations and balance supply and demand (Ibbotson, 2006).

2.7 REITs

2.7.1 The need for REITs

There is a growing demand for tax efficient, liquid and transparent vehicles for investing in real estate (KPMG, 2010). Due to the uniqueness of property, direct investment in real estate often has its drawbacks such as low fungibility and the need of a long-term investment time horizon. Non-owner occupied properties and short-term investment horizons are also subject to a windfall of taxation. During an economic crisis, properties often cannot be disposed of or if so only at reduced prices, mainly due to a lack of preparedness and ability to invest (Auer et al, 2012). Many investors also avoid direct investments in property due to the management costs and the associated concentration risk (Auer et al, 2012).

These shortcomings have created a greater need for indirect investment in real estate. Indirect investment in property avoids the drawbacks of direct investment while still allowing investors to enjoy the benefits of direct investments in real estate, such as hedging against inflation and diversification. There is a need for REITs even within the listed property market. REITs bring to the listed property market improved governance, simplified international transactions, improved international competitiveness and a regulation of international standards (Hedley, 2013).

REITs allow investment in real estate without the considerable long-term commitment, which is often typical of other real estate investment alternatives (Connors and Jackman, 2000). Investing in REITs gives anyone the opportunity to benefit from the income generated from real estate investments, without having to purchase or finance the actual property. REITs are an asset class that is now available to investors around the world (Ibbotson, 2006).

2.7.2 Advantages of REITs

2.7.2.1 Affordability and Ease of Handling

The advantages of REITs over direct investment in real estate include lower transaction costs for most investors, greater investor access, liquidity, corporate governance, real-time pricing in public capital markets independent analysis (Ibbotson, 2006). Relative to private markets, the growing REIT market provides a vehicle for investors to construct international real estate portfolios without the weighty burden of purchasing, managing, and disposing of direct property investments in distant countries with unfamiliar political, legal and market frameworks (Ling & Naranjo, 2002).

For a large proportion of investors REITs and listed real estate stocks are the only affordable and reasonable way to gain exposure to the commercial real estate equity asset class (Ibbotson, 2006). Indirect commercial real estate equity is accessible to almost all investors through equity REITs for which there is a range of publicly available indices to measure performance (Ibbotson, 2006).

2.7.2.2 Liquidity

REITs offer two key advantages to the institutional investor constructing a portfolio (Frost et. al, 2005). Firstly the diversification that real estate offers as an asset class and secondly, sufficient liquidity to gain access to that asset class easily (Frost et. al, 2005). A fundamental difference between listed and direct property is liquidity. Listed property securities are traded on public exchanges and can be bought and sold daily, with minimum investment requirements and low fees (Crowe and Krisbergh, 2010). These characteristics are what make REITs more liquid than direct investment in property.

According to Byrne & Lee (2005) there is an increased desire by fund managers in the UK to seek out indirect investment vehicles that have lower costs and higher liquidity, yet still offer returns equivalent to direct investment, REITs are one of these securities. There is a time lag from first identifying direct real estate opportunities to ultimately funding that opportunity; therefore institutional investors tend to underweight real estate against their long-run strategic real estate allocation (Frost et. al, 2005).

Retrospective analysis by Feldman (2003) implies that real estate allocations have been well below optimal levels. Real estate investors are attracted to REITs because of the immediacy of market exposure that can be realized through public markets. Also, the depth and maturity of the REIT market is such that substantial investment is achievable without incurring undue price impact on the underlying securities (Frost et. al, 2005).

2.7.2.3 Diversification Benefits and Hedge Against Inflation

Investment in real estate helps in hedging inflation, diversification, and yield enrichment (Nair, 2012). However, investors must ensure that the company is professionally managed and that investment decisions are taken with circumspection (Nair, 2012). According to Feldman (2003), investment in REITs appear to provide an efficient vehicle for small and medium-size institutional investors to develop a significant real estate allocation and a means for larger investors to better diversify their real estate portfolios.

Anderson et al. (2005) found that equity REITs and small capital value stock returns share common drivers. They showed that despite small capital value equities being most highly linked to REIT return volatility of all the asset classes studied, there are significant components of REIT returns unrelated to stock and bond factors. As a result, Anderson et al. (2005) concluded that there is a unique element to REITs, which implies that it offers substantial diversification benefits beyond those of small capital value stocks.

Brounen & Eichholtz (2003) examined the relationships among private property, the securitized real estate share market, and the common stock market in the United Kingdom and the United States. Correlations between real estate share returns and common stock returns show a similar decreasing trend in both countries, showing increased mixed-asset diversification potential for real estate shares. They found that the optimal portfolio allocation of real estate securities is 10% using the Sharpe ratio portfolio and even under pessimistic assumptions, real estate allocations are significant for both countries (Brounen & Eichholtz, 2003).

Mueller & Mueller (2003) find that public and private real estate returns have very low quarterly correlations, and the inclusion of both public and private real estate together in a mixed-asset portfolio produces a more efficient frontier than inclusion of just one or the other or neither. If the characteristics of real estate in either public or private form are expected to continue in the future, this study shows that they can make a major risk adjusted return contribution to a mixed-asset portfolio (Mueller & Mueller, 2003).

Bley & Olson (2003) find that equity REITs can enhance the risk-return relationship of a general securities portfolio and therefore should be added to many investors' stock and bond portfolios. Mortgage REITs may be advantageous for diversification; however, superior benefits are obtained by adding equity REITs to a stock portfolio (Bley & Olson, 2003).

Conventionally real estate has been considered an asset class, which exhibits a specific risk/return characteristic and low co-movements with investments on the domestic bond and stock markets (Maurer & Reiner, 2002). Therefore, including real estate in a portfolio of stocks and bonds should improve the risk/return profile from the perspective of a domestic investor (Maurer & Reiner, 2002).

Ling & Naranjo (2002) investigated the return performance of publicly traded real estate companies by analyzing return data on over 600 companies in 28 countries over the time period spanning from 1984 to 1999. They found that there was a substantial amount of variation in mean real estate returns and standard deviations across countries. Furthermore, real estate securities may provide international diversification opportunities, which are further supported by their analysis of firm level, return data (Ling & Naranjo, 2002).

Studies by Byrne & Lee (2005) on the impact of real estate on the terminal wealth of UK mixed-asset portfolios find that incorporating real estate in the mixed-asset portfolios appears to offer an improvement in terminal wealth and a reduction in terminal wealth standard deviation compared with the base portfolio, which did not include real estate.

According to Chandrashekaran (1999), REITs do appear to offer substantial diversification benefits at least during certain time periods, such as following up-moves in the REIT Index, therefore dynamic asset allocation strategies that invest in REITs are likely to achieve superior risk and return profiles. This suggests that REIT stocks may have a significant role to play in dynamic asset allocation strategies (Chandrashekaran, 1999).

Cheng et al. (1999) use a bootstrap analysis to examine optimum foreign real estate holdings in mixed-asset portfolios under conditions of uncertainty. The analysis looks at investors from three different countries during the time-period 1973 to1994 (Cheng et al., 1999). Both optimum portfolio composition and portfolio performance were studied (Cheng et al., 1999).Foreign financial assets, especially bills and bonds, seem to provide investors with the vast majority of diversification benefits available from foreign assets (Cheng et al. 1999).

However, when investigating optimum portfolio composition, the results show that, under certain circumstances, sizeable amounts of foreign real estate in the portfolio, that is 20% or more, can be optimal. This was true for the investors of all three countries. These occurrences are likely to be infrequent and quite often, even with a high risk tolerance, investors should not hold more than 10% of their holdings in foreign real estate (Cheng et al. 1999).

For investors with a low risk tolerance, 5% or less seems appropriate (Cheng et al. 1999). The limited correlation among different national economies leads to limited correlation among the asset returns of the different countries. Therefore, substantial diversification benefits are available when investments are spread out over many different countries (Cheng et al. 1999). The analysis therefore shows that there is a reasonable probability that under certain economic conditions foreign real estate can be a key component of the optimum portfolio (Cheng et al. 1999).

The diversification potential associated with investing internationally has received increased attention in recent years from both academics and practitioners (Ling & Naranjo, 2002). The risks and uncertainties of direct real estate investments in foreign countries have generally outweighed the possible reductions in portfolio risk from international diversification (Ling & Naranjo, 2002).

Liu & Mei (1998) find that investing in international real estate related securities provides additional incremental diversification benefits over and above that linked to international stocks. These benefits are relatively more evident at lower risk-return levels of the optimal portfolio and are existent irrespective of whether currency risks are hedged (Liu & Mei, 1998). Therefore, U.S. investors should consider including international real estate securities in their portfolios (Liu & Mei, 1998).

Maurer & Reiner (2002) conducted a study that analyses the diversification potential of integrating indirect real estate investments in international investment portfolios. The bond and stock markets as well as the real estate companies of the countries France, Germany, Switzerland, Great Britain and the USA over the time period of January 1985 till December 1998 were subjected to an ex-post and an ex-ante analysis (Maurer & Reiner, 2002).

In the ex-post study, substantial diversification benefits were established for both investors through the consideration of real estate companies (Maurer & Reiner, 2002). The source of these diversification benefits was mainly through the risk-reduction that including real estate securities created. In the ex-ante analysis, the incorporation of the real estate companies in some portfolio strategies, both for the German and U.S investors, led to a risk-reduction relative to the corresponding bond/stock strategies (Maurer & Reiner, 2002).

Conover, Friday & Sirmans (2002) found that for five of the six countries they examined, foreign real estate had a lower correlation with U.S. stocks than foreign stocks did. The lower correlation was also shown to be consistent through time as foreign real estate had a lower correlation than foreign stocks in 98 of the 102 months studied (Conover, Friday & Sirmans, 2002).

These lower correlations allowed for higher return and lower risk and when foreign real estate is added to a portfolio of U.S. assets and foreign stock (Conover, Friday & Sirmans, 2002). Furthermore, foreign real estate had a considerable, sometimes majority, weight in the efficient international portfolios and the absence of foreign real estate increases risk and decreases return for a U.S. investor (Conover, Friday & Sirmans, 2002).

2.7.2.4 Active Management

Unlike direct investment in real estate, listed property companies are dynamic with active management teams seeking to increase value (Crowe and Krisbergh, 2010). Management teams can take advantage of changes in fundamentals via acquisitions and disposals, and can engage in development or repositioning activities in markets with improving fundamentals (Crowe and Krisbergh, 2010). Listed companies are also likely to have more sources of income than pure rental revenues, including transactional or asset management income (Crowe and Krisbergh, 2010).

Due to REITs being exposed to market discipline, they have to be competitive to gain investors and are under constant scrutiny by independent analysts (Feldman, 2003). This exposure has likely led to a persistently improved performance, if only from a greater alignment of interests, particularly regarding the roles of external advisors and consultants (Feldman, 2003).

2.7.2.5 Real-time Pricing Mechanism

The advantage of using REIT market data is that they provide a more up-to-date assessment of the market’s valuation of the underlying real estate portfolio (Chandrashekaran, 1999). Direct real estate investments are valued infrequently therefore it is much less transparent and valuations through appraisals are based on only a small number of actual transactions (Crowe and Krisbergh, 2010). Also the true value of the real estate is not determined until the property is sold. Real estate securities however have a real-time pricing mechanism, therefore is essentially no lag between the market value of the security and the share price (Crowe and Krisbergh, 2010).

Listed property prices immediately include changes in variables that impact asset value from the macro to the micro (Crowe and Krisbergh, 2010). Therefore listed real estate markets can provide useful information for strategic decisions with respect to tactically growing or reducing direct real estate weights, or timing strategic allocations (Crowe and Krisbergh, 2010). Using the listed market as a leading indicator, investors can identify opportune times to make dynamic allocations between listed and direct real estate (Crowe and Krisbergh, 2010).

2.7.2.6 Optimized Portfolio and Enhanced Returns

There is substantial evidence that supports giving real estate a significant role in mixed-asset investment portfolios (Mull & Soenen, 1997). Lee & Stevenson (2006), found that real estate strongly possessed the element of consistency in optimized portfolios. In there study over time periods ranging from 5 to 25 years, real estate consistently had positive allocations for most levels of portfolio return, irrespective of whether real estate is used to reduce risk or enhance returns.

According to Lee and Stevenson (2006), the benefits from including real estate in the mixed-asset portfolio tend to increase as the investment horizon is extended (Lee & Stevenson, 2006). Sa-Aadu et al. (2006) found that commodities and precious metals, and equity REITs are the two asset classes that deliver portfolio gains when consumption growth is low and or volatile, that is, when investors value growth the most. Consistent with these results, they found that investor portfolio allocations using a regime switching framework shows that during the ‘bad’ economic state, the mean-variance optimal risky portfolio is skewed towards equity REITs, precious metals, and Treasury bonds (Sa-Aadu et al., 2006).

The role of real estate extends from the lowest risk end of the efficient frontier to just past the midpoint of the mixed-asset efficient frontier (Hudson-Wilson et. al, 2003). This is because real estate is both a low-risk asset itself and an excellent risk reducer in a bond and stock portfolio (Hudson-Wilson et. al, 2003). According to Hudson-Wilson et al (2003) real estate is very suitable for investors concerned about capital preservation and who need to earn a suitable rate of return.

According to a study by Lee (2002), adding real estate into an existing bond/equity portfolio often led to substantial increases in risk-adjusted performance. This is especially so for an allocation to real estate of at least 15% but especially at 20%, in contrast, an allocation of only 5%, or even 10%, to real estate offers little improvement in risk-adjusted performance (Lee, 2002).

A further structural element that may benefit the performance of REITs is that REITs are exempt from government taxation if they distribute 90% (U.S) of their net operating income as dividends (Feldman, 2003). Arnott and Asness (2003) find that because managers signal their earnings expectations through dividends high dividend payout ratios are strongly predictive of superior future performance. Arnott and Asness (2003) also postulate that greater dependence on market financing and high dividend payouts might force managers to give up on less productive investment options.

2.7.3 Disadvantages of REITs

Real estate securities reflect a stock market component, which makes them volatile and liable to stock market sentiment (Brounen & Eichholtz, 2003). There is a loss of effective control as a result from investing in REITs (Feldman, 2003). Securitized real estate investment may not make sense if you can do a better task of selecting or managing real estate than public REIT managers, or have use for the considerable tax benefits of direct real estate investment (Feldman, 2003).

A potential disadvantage is that REITs tend to actively manage their real estate portfolios and therefore the market's valuation of REIT stocks reflects not only the value of the underlying real estate portfolio but also investors' expectations about the future growth prospects of REITs (Chandrashekaran, 1999). This tends to cause, as many researchers have noted, correlations of REIT stocks with the general stock market to be much higher (Chandrashekaran, 1999).

2.7.4 REITs around the world

Today REITs operate in more than 20 countries, and listed real property companies function in many more, resulting in substantial worldwide growth of publicly traded real estate equity market capitalization (Ibbotson, 2006). The global real estate securities market is substantial; it has a total market capitalization of approximately 1.3 trillion U.S dollars and is spread across 413 companies in 37 countries (figures as at 30 June 2012) (Cohen and Steers, 2012). The free float equity market capitalization of global REITs and listed real estate equities grew from $280 billion to $720 billion between January 2002 and June 2006, a compound annualized growth of 23% (Ibbotson, 2006).

Three quarters of the real estate companies in the global real estate universe are REITs or use REIT-like structures (Cohen and Steers, 2012). REITs are used as an investment vehicle in a significant number of countries around the globe and many countries have introduced REITs legislation or are considering introducing the REITs structure to their real estate markets. Table 4 below, highlights (as at June 30, 2012) the countries with listed REITs, countries with REIT legislation in place and countries where the introduction of REITs to the property market are under consideration.

Table 4

Countries with listed REITS and (year adopted) recorded below		**Countries with REIT legislation in place**	**Countries where REITs are under consideration**
United States (1960)	Hong Kong (2003)	Dubai	Brazil
Netherlands (1969)	Taiwan (2003)	Finland	China
Australia (1971)	Bulgaria (2005)	Hungary	Costa Rica
Canada (1994)	Malaysia (2005)	Luxembourg	India
Belgium (1995)	Israel (2006)	Pakistan	Nigeria
Greece (1999)	Germany (2007)	Philippines	South Africa
Singapore (1999)	United Kingdom (2007)	Puerto Rico	Spain
Turkey (1999)	Italy (2007)		
Japan (2000)	New Zealand (2007)		
South Korea (2001)	Mexico (2011)		
France (2003)	Thailand (2012)		
United States (1960)	Hong Kong (2003)		
Netherlands (1969)	Taiwan (2003)		
Australia (1971)	Bulgaria (2005)		
Canada (1994)	Malaysia (2005)		

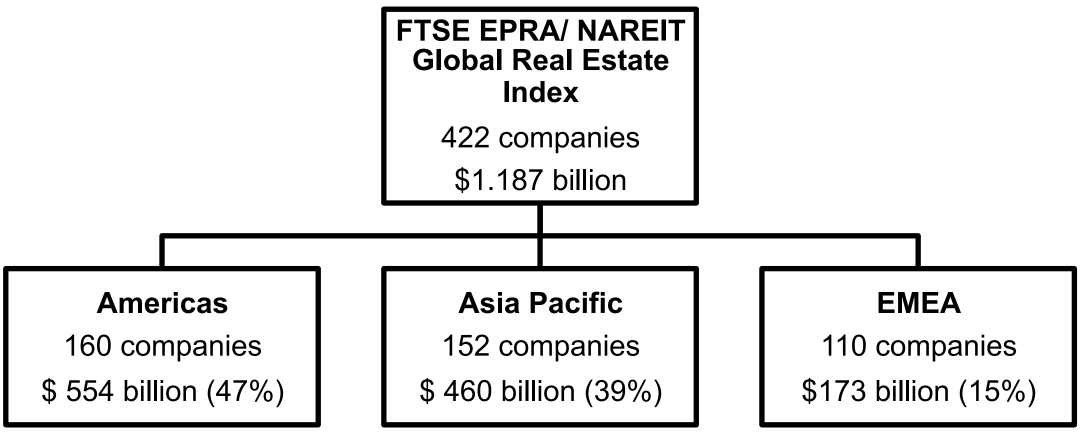
Source: UBS and Cohen & Steers, 2012 (as at June 30, 2012).

The FTSE EPRA/ NAREIT Global Real Estate Index breaks down the global REITs market capitalization into three regions, namely Americas, Asia Pacific and EMEA and these regions can then be further broken down into emerging REIT markets and developed REIT markets (NAREIT, 2012b). Each region makes up a certain percentage of the total market capitalization of global REITs; the REIT companies within each region generate this market capitalization.

The FTSE EPRA/ NAREIT Developed Real Estate Index and FTSE EPRA/ NAREIT Emerging Real Estate Index breakdowns market capitalization according to whether a country is an emerging or a developed economy. The diagrams below, Diagram 1, Diagram 2 and Diagram 3, were created by the FTSE EPRA/ NAREIT Global Real Estate Index and indicate how many companies exist in each region (Global), emerging markets and developed markets, as well as, the market capitalization that these companies contribute to the total global REIT market capitalization as of January 2013.

Diagram 1

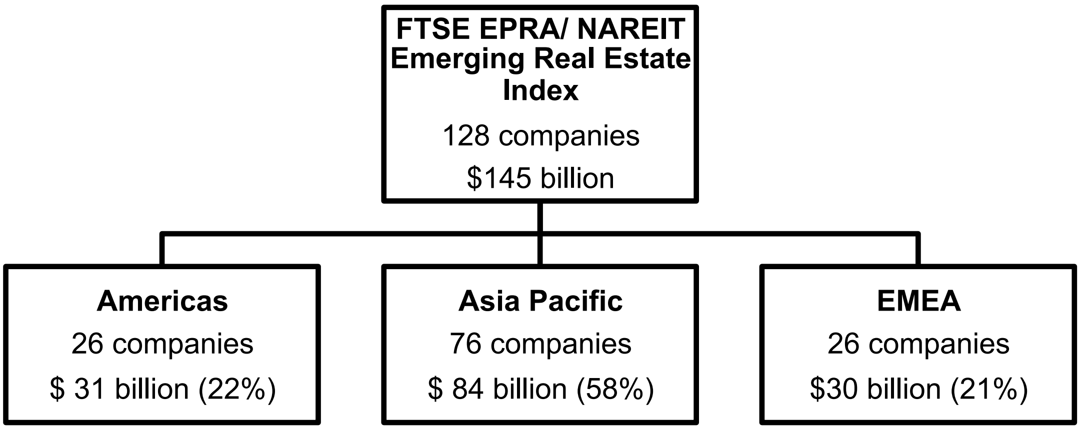
Global (Represents the aggregate of developed plus emerging):



Source: FTSE (NAREIT, 2013b), data as of January 31 2013.

Diagram 2

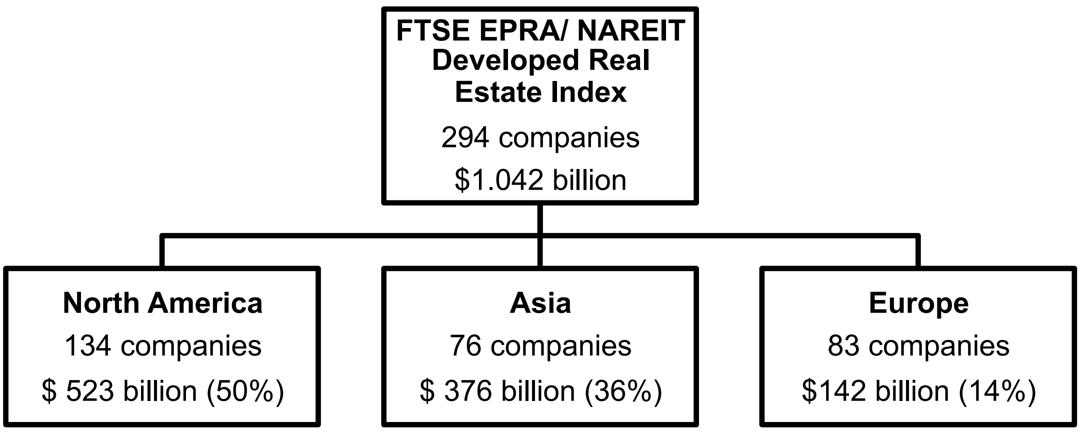
Emerging Markets:



Source: FTSE (NAREIT, 2013b), data as of January 31 2013.

Diagram 3

Developed Markets:



Source: FTSE (NAREIT, 2013b), Data as of January 31 2013.

2.7.5 An Overview of Global REIT Regulation and Taxation

Normally a REIT regime will offer exempt tax status to investment companies or other vehicles which meet certain criteria as to ownership and the investment portfolio, on the basis that the vehicle then distributes all, or most of its profits to shareholders (KPMG, 2010). In many but not all cases, the vehicle must also be listed (KPMG, 2010).

The tables below were created using data from KPMG International (2010). The tables provide an overview of the REIT regimes in Europe (Table 5), Asia (Table 6), the United States and Canada (Table 7) as at April 2010. These tables help gain a better understanding of the regulation and taxation of REITs globally and can be used to compare the regulation and taxation in different regions or countries.

Table 5

	Europe			
Country	UK (REIT)	Germany	Spain (SOCIMI)	France
Governed or regulated by	Tax law	Governed by Real Estate Investment Trust Act and reinforced by other tax regulation.	Tax Law	Tax law and governed by the Autoritédes Marchés Financiers (AMF).
Formalities & procedure	Provide a written notification to the HMRC (tax authority) before the beginning of the accounting period from which the regime will apply. Provide various financial statements as well as the statutory accounting statements. Provide a reconciliation of reserves split between taxable undertakings and tax-exempt activities.	Comply with a number of detailed regulatory requirements. Respective application of registration as REIT joint stock corporation with the Commercial Register.	File an election letter before the Spanish tax administration, before the last quarter of the tax year for which the SOCIMI regime will first apply. Prior approval of the shareholders (via a General Shareholders Meeting) is obligatory.	File an election letter before the French tax administration, before the end of the fourth month of the tax year for which the SIIC regime will first apply.
Legal form & share capital	Only UK residents that are not dual residents. Open-ended investment companies, close companies, or a party to a loan that is non-commercial or profit linked are not allowed. Only ordinary or non participating preferences shares are allowed.	Takes legal form of joint stock corporation. The actual seat of management and registered office must be in Germany. Minimum stated capital €15 million and "REIT-AG" or "REIT-Aktiengesellschaft" are included as part of the company's name.	Takes legal form of a stock company. Minimum share capital required is €15 million "Sociedad Cotizada de Inversión en el Mercado Inmobiliario, Sociedad Anónima" or "SOCIMI, SA" must be incorporated in the company's name.	Company's listed on a French stock exchange or on a foreign stock exchange must conform to the requirements of Directive 2004/39/EC. Are subject to French corporate income tax. Subsidiaries of a SIIC and/or a SPPICAV (new French real estate investment vehicle) may elect for the SIIC regime.
Leverage	REIT must pay tax charge if the interest cover is less than 1.25.	Equity must amount to at least 45% of the fair market value of the real estate.	The finance debt ratio cannot exceed 70% of the company´s total assets.	Unlimited
Mandatory listing on stock exchange	Needs to be listed on a recognized stock exchange.	Required listing in a public exchange in a member state of the European Union or the European Economic Area.	Obligated to be listed on a recognized Spanish stock exchange or in a member state of the European Union or the European Economic Area.	Parent company must be listed on a French or foreign (subject to conditions) stock exchange prior to the first day of application of the tax regime.

	Europe			
Country	UK (REIT)	Germany	Spain (SOCIMI)	France
Distribution on operative income	90% of the profits of the tax exempt company (calculated using standard tax rules).	90% of distributable income calculated based on German GAAP. Penalties of 20%-30% of the difference will be imposed if REITs fail to comply.	90% of the profits acquired by the REIT. 100% of the dividends obtained from other subsidiary SOCIMIs. The statutory reserve cannot exceed 20% of the Share capital.	85% of the tax-exempt profit obtained from subletting of real estate held through financial leases or the leasing of real estate and 100% of dividends received from a subsidiary within the SIIC regime.
Distribution on capital gain on disposed investments	Not required to distribute the exempt gains, however if gains are distributed, the distribution is subject to the deduction of basic rate income tax.	A maximum of 50% of capital can be reinvested immediately or retained as reserve for two years. Remaining capital gains must be included in distributable income. At the end of two years the reserve has to be either added to distributable income or reinvested.	50% of capital gains from the disposal of either shares or real property must be distributed. The residual 50% must either be distributed or reinvested in three years.	50% of capital gains from the disposal of either real estate or shares in real estate partnerships or shares in a corporate subsidiary which is itself exempt under the SIIC regime, and from the transfer of rights in financial leases.
Income tax	Profit generated from the tax- exempt property business is not subject to tax. Profits arising from non tax-exempt business are taxable in the ordinary manner at the main rate of corporation tax.	Exempt	Rental profits are taxed at 19%. Income is taxed at 30% when the real estate has been sold or rented by a related entity, or an entity resident in a country with an effective exchange of information, or the minimum permanence period of the real estate has not been observed.	Profit generated from the tax- exempt property business is not subject to tax. Non-eligible activities are taxed at the rate of 33.33%.
Capital gains tax	Gains arising to in the non tax-exempt part will be chargeable at the main rate of corporation tax.	Exempt	Exempt	Gains resulting from transfer of rights in financial leases, disposal of assets, or any eligible activities are exempt.

Source: KPMG, April 2010

Table 6

	Asia Pacific			
Country	Hong Kong (REIT)	Singapore (SREIT)	Australia	Japan (JREIT)
Governed or regulated by	Regulated by the Securities and Future Commission (SFC).	Governed by the Monetary Authority of Singapore (MAS) and the Singapore Exchange and regulated by the Securities and Futures Act, the Property Funds Guidelines, the Code of Collective Investments Scheme, the listing manual of the Singapore Exchange, and the Code of Corporate Governance 2005.	Governed by the Tax Administration Act 1953, the Income Tax Assessment Acts 1936 and 1997, and Corporations Act 2001.	Governed by the Investment Trust and Investment Corporation Law. JREITs must all follow the self regulating rules established by the Investment Trusts Association and must conform with the Japanese tax law in order to be tax qualified.
Formalities & procedure	Must comply with the REIT Code.	Must apply to the Inland Revenue Authority of Singapore for tax transparency ruling.	No special legal or regulatory requirements required to be a REIT. However, a REIT must at least be a Managed Investment Trust (“MIT”) to benefit from withholding tax changes.	Requirements must be prepared and filed with the Prime Minister. Registration with the Prime Minister is mandatory to obtain investment corporation status.
Formalities & procedure	Must comply with the REIT Code.	Must apply to the Inland Revenue Authority of Singapore for tax transparency ruling.	No special legal or regulatory requirements required to be a REIT. However, a REIT must at least be a Managed Investment Trust (“MIT”) to benefit from withholding tax changes.	Requirements must be prepared and filed with the Prime Minister. Registration with the Prime Minister is mandatory to obtain investment corporation status.
Legal form & share capital	Legal form of a unit trust listed in Hong Kong. No formal minimum capital requirement. Subject to listing rules. No limits are placed on the REIT’s cash holdings. Assets of the REIT are held on trust and separated from the assets of its trustees.	Takes legal form of a unit trust constituted by trust deed. Minimum assets size is US$20m (to be listed on Singapore Exchange).	Takes the legal form of a resident or non-resident (public) unit (fixed) trust. May adopt one of two structures, which are a stand-alone unit trust or form part of a listed stapled security. No minimum capital requirements exist.	Trust or Corporation. The minimum capital required for corporate type is JPY 100 million.

	Asia Pacific			
Country	Hong Kong (REIT)	Singapore (SREIT)	Australia	Japan (JREIT)
Leverage	Borrowings must not exceed 45% of the total gross asset value.	Borrowings must not exceed 35% of its deposited real estate. Borrowing may exceed 35% of its deposited property (a maximum of 60%) if the REIT has obtained a credit rating, which is then disclosed, to the public and discloses the credit rating until the borrowing drops to 35% or below.	The listed property trust is generally allowed to gear 75% of its adjusted Australian asset base. Debt deductions, such as interest expenses, will be reduced where the amount of debt exceeds the permissible gearing ratio of 3:1.	Unlimited leverage, however any borrowings by a J-REIT must be from a qualified financial institution.
Mandatory listing on stock exchange	It is mandatory to list on Hong Kong Stock Exchange.	To be entitled to tax concessions a REIT must be listed on the Singapore Exchange.	Non-compulsory to list on Australian Stock Exchange.	It is optional to list on a Japanese Stock Exchange. Must meet a number of requirements in order to be able to list.
Distribution on operative income	A minimum of 90% of its audited annual net income after tax. Trustee can exclude certain revaluation gains and capital profits	90% of taxable income generated from the letting of real estate in Singapore. For investment in overseas real estate, this is not applicable.	No requirement, however, trustee of trust is taxable if unit holders are not entitled to 100% of the income of the trust at year-end.	85% of the tax-exempt profit arising from the subletting of real estate held through financial leases of the leasing of real estate. A minimum of 90% of the accounting income or distributable profit.
Distribution on capital gain on disposed investments	No requirement, though subject to trust deed.	No requirement.	No requirement, however, trustee of trust is taxable if unit-holders are not presently entitled at year-end to 100% of capital gains realized on disposal of property.	A minimum of 90% of the accounting income or distributable profit.

	Asia Pacific			
Country	Hong Kong (REIT)	Singapore (SREIT)	Australia	Japan (JREIT)
Income tax	Hong Kong real estate held through special purpose vehicles (SPVs) are subject to property tax of 15%, or profits tax of 16.5% from the year of assessment. Dividend income from SPVs is tax exempt. Income from foreign real estate is not subject to Hong Kong tax.	Taxable income from Singapore real estate will not be taxed if distributed by the SREIT within the financial year. Taxable income that is not distributed within the financial year is subject to tax at the prevailing tax rate, currently 17%.	Trustee is not taxable as long as the unit holders are presently entitled to income of the trust at year-end. The net income for tax purposes that unit holders are not presently eligible to at year-end is taxed in the hands of the trustee at the current rate of 46.5%.	JREIT has to pay tax (42%) but distributions are deductible if certain requirements are met.
Capital gains tax	No capital gains tax.	No capital gains tax.	If there is any net capital gain it is included in taxable income of the trust.	Capital gains is treated the same as ordinary income.

Source: KPMG, April 2010

Table 7

	United States and Canada	
Country	U.S (REIT)	Canada (REIT)
Governed or regulated by	Tax laws and regulatory laws.	The federal Income Tax Act (the “ITA”).
Formalities & procedure	File a special tax return (Form 1120-REIT) in the year the company desires to become REIT. Letters are sent to its shareholders of record requesting details of beneficial ownership of shares annually.	A REIT is normally structured so as to qualify as a mutual fund trust (a “MFT”) as outlined in the ITA. If a trust qualifies as a MFT before the 91st day after the end of its first taxation year, and elects in its tax return for that year, the trust will be regarded as a MFT from the beginning of its first taxation year.
Legal form & share capital	Take the legal form of any entity taxable as a domestic corporation under US law. One or more directors or trustees must manage the entity and the shares must be transferable.	An inter vivos trust is created by written agreement usually called a “trust deed” or “declaration of trust”. The interest of each beneficiary under the trust is described by reference to units of the trust and trustees have legal title to and manage the trust real estate for the benefit of the beneficiaries of the trust. A MFT is required to be a unit trust resident in Canada. The unit trust can be open-ended or closed-ended.

	United States and Canada	
Country	U.S (REIT)	Canada (REIT)
Leverage	Not limited by legislation.	Not limited by legislation.
Mandatory listing on stock exchange	None	Required to list units on the Canadian stock exchange if the unit trust is closed ended or if 80% or more of its property was Canadian real estate. To qualify as a MFT, there must be a lawful distribution to the public of units of the trust and a prospectus.
Distribution on operative income	A minimum of 90% of the taxable income, in the form of dividends and not capital gains.	100% income of the MFT for a taxation year. A MFT that is not a specified investment flow through trust (SIFT trust) does not incur tax. A trust that is a REIT throughout a specific taxation year is not a SIFT trust for that particular year.
Distribution on capital gain on disposed investments	Distribution is not required in order to maintain status, however taxes must be paid on the proportion of capital gains that are not distributed.	100% of any capital gains of the MFT for a taxation year. A MFT that is not a SIFT trust does not incur tax. A trust that is a REIT throughout a specific taxation year is not a SIFT trust for that particular year.
Income tax	Capital gains and return of capital might be taxed at differing rates and dividend distributions are allocated to ordinary income. Corporate income tax will be paid to the extent that the company retains income and dividends are deductible from taxable income.	A REIT is a taxpayer under the ITA and must calculate taxable income each year and pay tax on any taxable income for the year. When calculating taxable income, a trust may subtract income paid or payable to unit holders in the year. Trustees may elect that taxable dividends received by the MFT to be distributed to resident unit holders as taxable dividends.
Capital gains tax	The same taxation as ordinary income and gains distributed in the form of dividends are deducted from taxable income.	A REIT must include 50% of any taxable capital gain arising in the year for purposes of computing taxable income and may offset the gain with any capital losses in the year or carried forward from previous years. A REIT may deduct income, including net taxable capital gains, paid or payable to unit holders in the year. Trustees may designate net taxable capital gains realized by the MFT to be distributed to unit holders as net taxable capital gains.

Source: KPMG, April 2010

2.8 REITs in South Africa

2.8.1 The South African Listed Property Market

Historically, prior to the introduction of the SA REIT legislation, there were two forms of listed property investment entities in South Africa, property loan stocks companies (PLSs) and property unit trusts (PUTs) (SAREIT, 2013b). Research shows that a few large players dominate the market, with the largest ten companies accounting for around 80% of the market capitalization (de Klerk, 2013).

South Africa’s bond and equity markets are developed and liquid and it has a well-capitalized banking sector which are essential for a well functioning property market; these characteristics have enabled the property sector to ease through the effects of the sub-prime mortgage crisis (de Klerk, 2013). The South African property market is continuously growing and under improvement. New listings are always encouraged; equity raisings are supported by local institutions and there is increasing liquidity, tradability and offshore interest (de Klerk, 2013).

The listed property sector makes up 3.3% of the Johannesburg Securities Exchange (JSE) All Share and has outperformed REITs from the developed world over the past ten years (de Klerk, 2013). The market capitalization of the property market is approximately R250 billion and the South African property market is likely to become the eighth largest REIT market globally, with around 26 REIT-like entities and more to come (Commercial property news, 2013). There are approximately 45 property groups listed on the JSE (Hedley, 2013). The real estate sector has considerably grown in size over the past decade due to favorable market conditions and is expected to grow further thanks to the new REIT structure (Hedley, 2013).

2.8.2 South African REIT regulation and taxation

The South African National Treasury saw the need for a change in regulation of the South African listed property market. This was driven by two main concerns. Firstly, the property investment landscape was fragmented, only partly regulated and the regulatory framework was too restrictive and not internationally competitive (National Treasury, 2008).

Secondly, both PUTS and PLS companies have inconsistent tax treatment and do not operate on a level playing field due to many differences in the governing regulatory framework (National Treasury, 2008). Since 1 May 2013, in an effort to bring South Africa’s listed property sector inline with international standards, improved governance and simplified handling, investors were able to invest money into real estate investment trusts on the JSE (Wilson, 2013).

The South African Real Estate Investment Trust Association (SAREIT) defines a South African REIT as a listed property investment vehicle that is comparable to internationally recognized REIT structures from around the world (SAREIT, 2013a). South African REITs have a flexible structure; they can be managed internally or externally and cater for different equity structures that may exist (SAREIT, 2013b). SA REITs generally own several kinds of commercial real estate such as office buildings, shopping malls, factories, hotels, warehouses and hospitals (SAREIT, 2013b). They also own residential real estate, in cities and towns across the country and some even invest in properties in other countries, however to a lesser extent than commercial property (SAREIT, 2013b).

There are two types of REITs that exist in South Africa; Company REITs and Trust REITs, SAREITs defines them as follows (SAREIT, 2013b):

COMPANY REIT:

- The shareholders in a Company REIT are active participants and they gain the full protection of the Companies Act and Takeovers Regulations Panel. Shareholders can vote on specific issues in a general meeting and they can vote for the company to be a REIT.
- The company will have its REIT structure recorded in its memorandum of incorporation.
- Ongoing compliance with the JSE's listing requirements and the Companies Act is the responsibility of the Company directors.
- The company management and/or property administration may be either internal or external.

TRUST REIT:

- Upon application to the JSE and after providing evidence of its compliance with the JSE Listing Requirements and that it is registered with the Registrar of Collective Investment Schemes an existing PUT will become a SA REIT.
- The interest of investors’ are protected by a trust deed and the trustee, who has the responsibility to ensure compliance with the Collective Investment Schemes Control Act and to safeguard investors' assets
- The Trust REIT is not subject to the Takeovers Regulations, however they need to meet all JSE listing requirements.
- Trustees have to report to the Registrar and are obligated to meet all the requirements of the Collective Investment Schemes Control Act.
- The Trust REIT has to have an external asset and property manager in terms of the Collective Investment Schemes Control Act.

Company REITs may be internally managed or externally managed. Trust REITs are externally managed (SAREIT, 2013a). Currently all SA REITs own income producing property and both existing PLSs and PUTs were able to adopt the REIT regularity framework, as set out by the Johannesburg Securities Exchange (JSE) (SAREIT, 2013b).

According to SAREITs the following list is the main criteria to accomplish REIT status and to be JSE-listed (SAREIT, 2013a):

- The applicant must own at least R300 million of property
- The applicant must keep its debt below 60% of its gross asset value
- The applicant must earn 75% of its income from rental or from property owned or investment income from indirect property ownership
- The applicant must have a committee to monitor risk and not enter into derivative instruments that are not in the ordinary course of business
- The applicant must pay at least 75% of its taxable earnings available for distribution to its investors each year.

Listed Company REITs and Trust REITs both qualify for the REIT tax dispensation and are publically traded on the JSE REIT board (SAREIT, 2013).

Chapter 3: Data and Methodology

This section provides a description of the research design and research methodology that will be used to analyze the research problem. The data and survey tools that were used in the study will be described. Further, an explanation of the scale used to analyze the data, how the results should be interpreted and the nature and form of the data will be provided. Finally, this section evaluates the limitations and ethical considerations of the research design and research methodology used.

3.1 Research design and methodology

Given that the research problem has not been adequately studied in the South African context, primary data in the form of a survey questionnaire is considered to be best suited to this study and will accordingly be used. Studying the opinions of an informed sample is a good starting point for the study. The literature review provided sufficient information to develop the appropriate, strategic questions to be used in the structured questionnaire. According to Rea and Parker (2005) there are certain factors that make sample survey research an appropriate method.

Firstly, adequate secondary data is not available (Rea and Parker, 2005). Due to the REIT legislation being a recent enactment, very limited secondary data is available on the performance of REITs in the South African context. In order to address the research problem, primary data has to be collected. A survey questionnaire is therefore considered as best suited to this study because it can be used to gauge the perception of stakeholders with regards to the impact of the newly enacted legislation. This primary data would form the basis of the research study.

Secondly, there is a desire to generalize findings from small subpopulations to a larger population (Rea and Parker, 2005). The population size of stakeholders within the S.A. listed property market is very large and it would be difficult to collect data from each individual stakeholder in the population.

Therefore a small subpopulation can be used to make inferences regarding stakeholders' perceptions of the potential impacts of the REIT legislation in S.A.

Thirdly, the target respondent population is accessible (Rea and Parker, 2005). The target respondent population of the study includes individuals that are active in the listed property market or that are knowledgeable of the REIT legislation. These individuals include accountants, lawyers, property analysts, investors and directors or owners of property companies, who are accessible to respond to the survey questionnaire.

Finally, the data to be obtained is of a personal, self-reported nature (Rea and Parker, 2005). Due to the limited data available on REITs in S.A it would be difficult and statistically inadequate to make inferences based on only secondary data. The research problem will therefore have to be analyzed, based on stakeholders' personal perceptions. To obtain the primary data, respondents to the questionnaire will base their responses on their personal experiences and perceptions. All respondents will answer the questionnaire independently and will not be persuaded to choose any specific response. To encourage respondents to answer the questionnaire honestly, all respondents will remain anonymous.

The primary data from the responses to the questionnaire would then be analyzed and the findings would be used to address the research problem. The research report is constructed in the following logic: Firstly an outline of the research problem as well as the purpose of the study is provided, next a literature review, followed by the process and design used in collection of the data, analysis of the data, reporting of the findings and finally the conclusion and recommendation for further research.

3.2 Data Collection

Quota sampling was used to collect the primary data. All the questions in the questionnaire are based on an ordinal scale, except for question two, which is based on a categorical scale. Question two is intended to identify the occupation of the informed participant. By categorizing the respondents by their occupation an enhanced understanding of the data can be achieved.

The questionnaires were sent to a specific group of individuals. These include stakeholders in the listed property market and individuals who are knowledgeable about the REIT legislation. All participants in the questionnaire survey where occupationally based within South African and/or had prior knowledge of the S.A listed property market and REITs. This ensured that all participants in the questionnaire gave valid responses that were based on rational reasoning. This study will refer to these individuals as informed individuals since they have had some prior knowledge of the previous legislation in the South African listed property market and are knowledgeable of the newly introduced REIT legislation in South Africa.

Two forms of dissemination of the questionnaire to the informed survey sample were used. Questionnaires were printed out and handed directly to the participant or a link to the online questionnaire was sent out via email to the participant. Two methods of distribution were used to maximize the response rate. The method of dissemination to each individual in the survey sample was based on what the respondent found most accessible.

A 5-point Likert scale was used to gauge the opinions of the sample group. The Likert scale shows the degree to which the respondent agrees (Agree; Strongly Agree), disagrees (Disagree; Strongly Disagree) or is neutral (Neither agree nor disagree) towards the test statement. All of the participants were asked permission and contacted prior to either receiving the printed questionnaire or the online link to the questionnaire.

Majority of the listed South African property companies were contacted by the researcher to gain permission to either email a link or physically hand out questionnaires to the relevant informed parties to complete. Numerous informed individuals from investment and property companies were contacted. Legal and accounting professionals working within the property market were also contacted. Follow-ups were required in certain instances and the response rate was satisfactory.

3.3 Statistical Analysis

3.3.1 Survey

The survey questionnaire is a cross sectional, descriptive study. There are a total of 20 questions in the questionnaire. The questions have been divided into 4 unifying themes. Chapter 4 will provide a discussion of each theme and an analysis of the responses to the questions within each theme. The results of the survey questionnaire will be analyzed using graphical analytical methods such as pie charts and histograms. Summary statistics, which include the mean, mode, maximum, minimum, standard deviation and frequency tables, will also be used. The survey that was presented to respondents is found in Table 8 below:

Table 8

Please tick the appropriate box.

Question	Response				
How would you rate your knowledge of the new REITs legislation?	Very Poor	Poor	Fair	Good	Very Good
Which of the following best describes your current status?	Property Analyst	Investor	Director or owner of Property Company	Accounting or legal professional	Interested party
The S.A listed property market was in need of a change in terms of regulation and tax dispensation.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REIT legislation (S.A REIT) is a welcome introduction.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) will find it advantageous to change to the S.A. REIT listed property structure.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REITs tax dispensation (the inclusion of section 25 BB to the Income Tax Act No. 58 of 1962) allows for a unified tax treatment of PUTs and PLSs. This will create greater tax certainty for investors.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
S.A REITS are exempt from capital gains tax (this excludes financial instruments which are deemed not to be of a capital nature in the new REIT legislation). This offers significant benefits to S.A REITs because they can fully reinvest any capital gains made on the disposal of assets in order to generate further returns.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Neither the PLS nor PUT offers international investors the uniformity and simplicity to facilitate international investment. The introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree

Question	Response				
S.A REITs are regulated by the JSE and are required to adhere to the regulatory rules set out in the listing requirements Section 13. This allows for increased transparency, governance and investor protection within the S.A listed property market.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
S.A REITs must comply with a complex set of REIT qualification provisions; this may distract the management from other business concerns.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
Under the JSE-listing requirements, a S.A REIT must pay at least 75% of its taxable earnings available for distribution to its investors each year. This could put a strain on the company in terms of funding its operations.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
There is insufficient information available to potential and existing investors and companies in the listed property market about the implications of the new REIT listed property framework.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. This potentially reduces the profit potential of sales for S.A REITs	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REIT legislation will align the S.A listed property market to international standards; which will make the S.A listed property market more internationally competitive.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REIT legislation will encourage fund managers to include more SA REITs in their portfolios.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree

Question	Response				
The new REIT legislation will lead to increased investment in the listed property market by local investors	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The new REIT legislation will bring increased liquidity to the S.A property market.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The introduction of the REITs legislation will improve the efficiency of the listed property market in the long term.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree
The introduction of REITs legislation will enable the S.A listed property market to achieve enhanced performance and growth in the long term.	Strongly Disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree

3.3.2 Survey Sample

The total responses of the survey sample are provided in a tabulated form in Chapter 4. The survey sample can be described as the number of respondents to the questionnaire, categorized by occupation. The target respondent population of the study includes individuals that are active in the S.A listed property market or that are knowledgeable of the REIT legislation and the S.A property market. These individuals include accountants, lawyers, property analysts, investors and directors or owners of property companies.

The survey sample consists of a total of 58 respondents. It comprises 14 property analysts (24.14%), 18 investors (31.03%), 2 directors/ owners of property companies (3.45%), 13 accounting and legal professionals (22.41%) and 11 interested individuals (18.97%). A table representing the total number of respondents and a breakdown of the respondents by occupational category can be found in Appendix A.

3.3.3 Statistical Significance Test

To determine whether or not the differences in the results obtained on each response item are statistically significant, hypothesis-testing techniques are used. The responses to the questionnaire are ordinal in nature; therefore a non-parametric statistical test would be most suitable. Statistically significant responses from the questionnaire will determine the key finding of the survey study.

The chi-square goodness-of-fit test also known as Pearson's chi square test is used to test the significance of the responses to each question in the questionnaire. The Chi-square goodness-of-fit test is a nonparametric test. It is used to determine whether the distribution of occurrences in a single categorical variable follows a known or hypothesized distribution (Laerd, 2013). In this study, a chi-square test of equal proportions was used, that is, it was hypothesized that the expected proportion of occurrences in each group of the categorical variable is equal. This implies that the null hypothesis is that the proportion of responses expected in each group of the categorical variable (i.e. strongly agree, agree, neither agree nor disagree) is equal.

The alternative hypothesis is that the proportion of responses expected in each group of the categorical variable is not equal and it can therefore be concluded that there are statistically significant differences in the preferences of the respondents, with respondents preferring one or some of the groups of the categorical variable more or less compared to the others.

The null hypothesis will be rejected if the p-value is less than the significance level (Keller, 2006). A 5% significance level will be used in the study. The p-value is the probability of observing a sample statistic as extreme as the chi-square test statistic (Keller, 2006). If the responses to the questions in the survey are statistically significant the dominant perceptions of respondents' can be identified and inferences about the respondents' perceptions can be made.

3.4 Limitations of the survey method

Although considerable thought was placed in selecting the research methodology and design, limitations exist. Firstly, since REITs have only been introduced to the South African real estate market on 1 May 2013, limited secondary data is available on the performance of S.A. REITs. This presented a challenge because there was limited secondary data available to compare the findings of the study with. Secondly, both time and resources were limited. Due to time and resource constraints the sample size was limited, however it was sufficient enough to provide consistent and valid findings.

Thirdly, the survey method may limit the information that respondents have or are willing to contribute. Respondents may have imperative information that is very applicable to the research, however the questions only allow for a limited response. Another limitation is that if a Likert scale is used, respondents have to share their perceptions by selecting a specific rating (e.g. agree, disagree). Respondents may interpret the magnitude of the ratings differently. This rating may also be dependent on certain factors/conditions being present or the ratings may not aptly represent the respondent's perception.

3.5 Ethical considerations

All reasonable attempts have been made to ensure that there is no violation of any ethical standards and no intentions to cause any harm. The nature of the research study posed negligible if not any risks to the participants. All participants were asked permission before the researcher disseminated either an email link to the online questionnaire or handed out a printed version of the questionnaire to them. Both the email containing the link to the online questionnaire and the questionnaires that were printed and directly handed to participants' included a cover page explaining the nature of the study and the intended use of the information that would be collected.

The cover page provided a description of the research problem, the purpose of the study and instructions on how to complete the questionnaire.

Participation by respondents was completely at their own time and discretion, which was clearly denoted on the cover page. The cover page also informed participants that the questionnaire should be answered honestly, that participation is strictly voluntary, that participants may refuse to participate at any time and that completion and return of the questionnaire will indicate willingness to participate in this study.

Respondents were also clearly informed that they will respond to the questionnaire anonymously and all their information will be kept confidential. Respondents were requested not to include any personal information on the questionnaire, except for their current role. The fact that the respondents remained anonymous would potentially motivate them to express their true perceptions without them having any concerns about being judged afterwards. This therefore would potentially improve the quality of the primary data.

All the sources of literature used in the research study were properly referenced using the guidelines as indicated by Wits Business School (WBS). Intellectual property rights and privacy rights were respected at all times. There was no intentional misrepresented of the findings of the research study and all data was reported in its entirety.

Chapter 4: Results of Survey Study

This chapter highlights and discusses the results of the survey. Firstly the responses to the questionnaire are examined. The total number of responses and the number of responses within each occupational category are analyzed. Subsequently, a detailed analysis of the results based on four unifying themes, namely Theme 1: Questions related to the new legislation and it suitability; Theme 2: Questions related to the new regulation and tax dispensation of the legislation; Theme 3: Questions related to the potential drawbacks of the new REIT legislation and Theme 4: Questions related to the current and future potential benefits of the new legislation are examined, respectively.

4.1 Breakdown of Responses to the Survey Questionnaire

The survey questionnaire consisted of 20 questions and was sent to a sample consisting of 5 relevant, distinguishing occupational groups. All participants in the questionnaire were occupationally based within South Africa. The 5 occupational groups included; Property analysts, Investors, Directors or owners of property companies, Accounting or legal professionals and Interested parties. The questionnaire was complete by a total of 58 respondents in useable forms. Below, Table 9 provides a summary of the responses, categorized by the respondents distinguishing occupational group.

Table 9: Summary of responses

Which of the following best describes your current status?				
Response	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
Property Analyst	14	24.14	14	24.14
Investor	18	31.03	32	55.17
Director or owner of Property Company	2	3.45	34	58.62
Accounting or legal professional	13	22.41	47	81.03
Interested party	11	18.97	58	100.00

The sample of respondents to the questionnaire was broad and representative of the individuals who deal with REITs on a regular basis and are therefore most impacted by the introduction of the REIT legislation to the South African listed property market. There were 58 respondents to the questionnaire. Property analysts made up 24.14%, investors were the majority representing 31.03% of the sample, directors or owners of property companies contributed to 3.45%, accounting or legal professionals constituted 22.41% and interested parities made up 18.97% of questionnaire sample. A more detailed analysis of each of the questions based on the responses by the different occupational group categories can be found in Appendix B.

4.2 Analysis of the Total Responses to the Questionnaire Survey and Statistical Significance of the Responses

Table 10, below provides a breakdown of the responses to each of the survey questions. The responses are categorized for each question into; the frequency at which each of the scaled responses (i.e., strongly disagree, disagree, neither agree or disagree, agree and strongly agree) occurred; the percentage of time at which each of the scaled responses occurred in relation to the total responses to the question and the statistical significance of the responses to each of the questions using the Chi-square goodness-of-fit statistical test. A summary of the descriptive statistics of each of the questions, such as the minimum, maximum, mean and standard deviation can be found in Appendix B.

A detailed analysis is conducted on the results of the questionnaire (Table 10) based on the 4 unifying themes, namely Theme 1: Questions related to the new legislation and it suitability; Theme 2: Questions related to the new regulation and tax dispensation of the legislation; Theme 3: Questions related to the potential drawbacks of the new REIT legislation and Theme 4: Questions related to the current and future potential benefits of the new legislation. The questions are placed within these themes because they help create an enhanced understanding of the results.

Table 10: Total Responses to the Survey Questionnaire and Chi-Square Statistical Test Results

	Frequency Percentage					Chi-Square Test Results		
Questions	**Str. Disagrd**	**Disagrd**	**Neither**	**Agrd**	**Str. Agrd**	**Chi-Sq**	**Deg. Frd**	**p-Value**
1. The S.A listed property market was in need of a change in terms of regulation and tax dispensation.	1 1.72	0 0.00	9 15.52	42 72.41	6 10.34	71.793	3	0.000
2. The new REIT legislation (S.A REIT) is a welcome introduction.	1 1.72	0 0.00	8 13.79	38 65.52	11 18.97	54.414	3	0.000
3. Existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) will find it advantageous to change to the S.A. REIT listed property structure.	0 0.00	1 1.72	7 12.07	42 72.41	8 13.79	71.517	3	0.000
4.The new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs.	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	39.862	2	0.000
5. The new REITs tax dispensation (the inclusion of section 25 BB to the Income Tax Act No. 58 of 1962) allows for a unified tax treatment of PUTs and PLSs. This will create greater tax certainty for investors.	0 0.00	0 0.00	6 10.34	43 74.14	9 15.52	43.690	2	0.000
6.S.A REITS are exempt from capital gains tax (this excludes financial instruments which are deemed not to be of a capital nature in the new REIT legislation). This offers significant benefits to S.A REITs because they can fully reinvest any capital gains made on the disposal of assets in order to generate further returns.	0 0.00	0 0.00	12 20.69	39 67.24	7 12.07	30.655	2	0.000
7. Neither the PLS nor PUT offers international investors the uniformity and simplicity to facilitate international investment. The introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment.	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	39.862	2	0.000
8. S.A REITs are regulated by the JSE and are required to adhere to the regulatory rules set out in the listing requirements Section 13. This allows for increased transparency, governance and investor protection within the S.A listed property market.	0 0.00	1 1.72	3 5.17	45 77.59	9 15.52	87.931	3	0.000

	Frequency Percentage					Chi-Square Test Results		
Questions	**Str. Disagrd**	**Disagrd**	**Neither**	**Agrd**	**Str. Agrd**	**Chi-Sq**	**Deg. Frd**	**p-Value**
9. S.A REITs must comply with a complex set of REIT qualification provisions; this may distract the management from other business concerns.	4 6.90	30 51.72	17 29.31	6 10.34	1 1.72	49.069	4	0.000
10. Under the JSE-listing requirements, a S.A REIT must pay at least 75% of its taxable earnings available for distribution to its investors each year. This could put a strain on the company in terms of funding its operations.	6 10.34	27 46.55	14 24.14	9 15.52	2 3.45	32.172	4	0.000
11. There is insufficient information available to potential and existing investors and companies in the listed property market about the implications of the new REIT listed property framework.	3 5.17	9 15.52	18 31.03	25 43.01	3 5.17	32.345	4	0.000
12.S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. This potentially reduces the profit potential of sales for S.A REITs.	0 0.00	8 13.79	18 31.03	30 51.72	2 3.45	31.103	3	0.000
13. The new REIT legislation will align the S.A listed property market to international standards; which will make the S.A listed property market more internationally competitive.	0 0.00	0 0.00	6 10.34	40 68.97	12 20.69	34.069	2	0.000
14. The new REIT legislation will encourage fund managers to include more SA REITs in their portfolios.	1 1.72	0 0.00	6 10.34	44 75.86	7 12.07	81.448	3	0.000
15. The new REIT legislation will lead to increased investment in the listed property market by local investors.	1 1.72	2 3.45	8 13.79	34 58.62	13 22.41	62.172	4	0.000
16. The new REIT legislation will bring increased liquidity to the S.A property market.	0 0.00	0 0.00	10 17.24	37 63.79	11 18.97	24.241	2	0.000
17. The introduction of the REITs legislation will improve the efficiency of the listed property market in the long term.	0 0.00	0 0.00	6 10.34	42 72.41	10 17.24	40.276	2	0.000
18. The introduction of REITs legislation will enable the S.A listed property market to achieve enhanced performance and growth in the long term.	0 0.00	0 0.00	7 12.07	41 70.69	10 17.24	36.655	2	0.000

4.2.1 Results of survey questionnaire: Theme 1

Table 11: Questions related to the new legislation and it suitability

Questions	Frequency Percentage Str. Disagrd	Disagrd	Neither	Agrd	Str. Agrd	Chi-Square Test Results Chi-Sq	Deg. Frd	p-Value
1. The S.A listed property market was in need of a change in terms of regulation and tax dispensation.	1 1.72	0 0.00	9 15.52	42 72.41	6 10.34	71.793	3	0.000
2. The new REIT legislation (S.A REIT) is a welcome introduction.	1 1.72	0 0.00	8 13.79	38 65.52	11 18.97	54.414	3	0.000
3. Existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) will find it advantageous to change to the S.A. REIT listed property structure.	0 0.00	1 1.72	7 12.07	42 72.41	8 13.79	71.517	3	0.000
4.The new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs.	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	39.862	2	0.000

The questions within Theme 1 (found above in Table 11) were used to gauge whether or not stakeholders within the S.A. listed property market perceive the new REIT legislation as a suitable and welcomed introduction. The response results to all four questions are considered to be statistically significant and have a p-value of less than 0.001. This means that we can reject the null hypothesis and conclude that there are statistically significant differences in the responses of the participants and one of the scaled responses is preferred relative to the others.

72.41% of the respondents agreed that the S.A listed property market was in need of a change in terms of regulation and tax dispensation. 10.34% of participants strongly agreed, whilst only 1.72% strongly disagreed and 15.52% of participants were indifferent. Majority (65.52%) of the respondents from all the occupational groups agreed that the new REIT legislation (S.A REIT) is a welcome introduction, 18.97% of participants strongly agreed, 13.79% neither agreed nor disagreed and a mere 1.72% strongly disagreed.

From the results of the first two questions it can be inferred that there is an evident perception that the S.A. listed property market was in need of a change in legislation and that it is a welcome introduction. It also indicates that stakeholders in the listed property market perceive the REIT legislation in a positive light and tend to show very minimal aversion towards the introduction.

Questions 3 and 4 were used to gain more insight into whether or not stakeholders find REITs more advantageous and practical relative to PUTs and PLSs. A significant percentage (72.41%) of respondents agreed that existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) would find it advantageous to change to the S.A. REIT listed property structure, 8% of participants strongly agree, 12.07% neither agree nor disagree and 1.72% disagrees.

Majority (72.41%) of the respondents agreed that the new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs, 13.79% strongly agree and 13.79% are indifferent. From the results of these questions it can be concluded that stakeholders in the listed property market have the perception that the REIT legislation is easier and more simpler to comprehend relative to the old legislation of PUTs and PLSs and that a change to the REIT legislation will be advantageous. The results of questions 3 and 4 were further supported by the fact majority of respondents in all the occupational group agree with this statement.

The apparent perception shown from the responses to the four questions in Theme 1, is that stakeholders in the South African listed property market are in favor of the REIT legislation and that it is suitable and welcomed introduction. This could potentially lead to many existing listed property companies to adopt the REIT legislation. Respondents also perceive the new legislation as less complex relative to the old PUT and PLS legislation and believe that a change to the REIT legislation will be advantageous.

4.2.2 Results of survey questionnaire: Theme 2

Table 12: Questions related to the new regulation and tax dispensation of the legislation

	Frequency Percentage					Chi-Square Test Results		
Questions	**Str. Disagrd**	**Disagrd**	**Neither**	**Agrd**	**Str. Agrd**	**Chi-Sq**	**Deg. Frd**	**p-Value**
1. The new REITs tax dispensation (the inclusion of section 25 BB to the Income Tax Act No. 58 of 1962) allows for a unified tax treatment of PUTs and PLSs. This will create greater tax certainty for investors.	0 0.00	0 0.00	6 10.34	43 74.14	9 15.52	43.690	2	0.000
2.S.A REITS are exempt from capital gains tax (this excludes financial instruments which are deemed not to be of a capital nature in the new REIT legislation). This offers significant benefits to S.A REITs because they can fully reinvest any capital gains made on the disposal of assets in order to generate further returns.	0 0.00	0 0.00	12 20.69	39 67.24	7 12.07	30.655	2	0.000
3. Neither the PLS nor PUT offers international investors the uniformity and simplicity to facilitate international investment. The introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment.	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	39.862	2	0.000
4. S.A REITs are regulated by the JSE and are required to adhere to the regulatory rules set out in the listing requirements Section 13. This allows for increased transparency, governance and investor protection within the S.A listed property market.	0 0.00	1 1.72	3 5.17	45 77.59	9 15.52	87.931	3	0.000

Theme 2 (found above in Table 12) discusses those questions related to the new regulation and tax dispensation of the REIT legislation. The response results to all four questions are statistically significant and have a p-value of less than 0.001. There are four questions in this theme and the questions are aimed at identifying the perceptions that respondents have towards the REIT tax dispensation and regulation.

Question 1 and 2 focus on the taxation implications of the REIT structure. 74.14% of the participants agreed that the REIT legislation would create greater tax certainty for investors and 15.52% strongly agreed. Out of the 58 respondents 39 (67.44%) agree and 7 (12.07%) strongly agree that S.A REITs offer significant benefits to listed property companies because S.A REITs are exempt from capital gains tax and can fully reinvest any capital gains made on the disposal of assets in order to generate further returns. These results indicate that majority of the respondents have the perception that the REIT framework creates greater tax certainty (due to the unified tax treatment of both PLSs and PUTs when they convert to the REIT structure) and that the exemption from capital gains taxes is potentially advantageous.

Question 3 and 4 seek to address the issue of the structural appropriateness of the REIT legislation and the implications of the REIT regulations. A significant 77.59% of the respondents agree that conforming to the REIT regulatory requirements will lead to increased transparency, governance and investor protection within the S.A listed property market and 15.52% strongly agree with this statement. This perception was strongly supported by respondents from all the occupational groups.

Majority (72.41%) of the respondents agree that relative to PLSs and PUTs, the introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment and 13.79% of the respondents strongly agree. This implies that the respondents' perception of the REIT legislation is that it both enhances the structure of the S.A listed property market, allowing it to become more unified with international standards and that compliance with the REIT regulation allows for potentially increased transparency, governance and investor protection in the S.A listed property market.

Based on the responses to the four questions in Theme 2, it can be inferred that the respondents perception is in favor of the idea that REIT legislation allows for potentially improved regulation and tax dispensation. There is a positive perception by majority of the participants that the REIT legislation leads to improved transparency, governance and investor protection within the S.A listed property market, greater tax certainty and uniformity and simplicity to facilitate international investment for international investors.

A significant proportion of participants also support the view that because REITs are exempt from capital gain taxes it provides potential benefits to stakeholders. The responses to Theme 2, further suggests that respondents have the perception that a transition to the REITs framework would be advantageous, from both a taxation and regulation basis, to both current and potentially listed property companies in S.A.

4.2.3 Results survey questionnaire: Theme 3

Table 13: Questions related to the potential drawbacks of the new REIT legislation

	Frequency Percentage					Chi-Square Test Results		
Questions	**Str. Disagrd**	**Disagrd**	**Neither**	**Agrd**	**Str. Agrd**	**Chi-Sq**	**Deg. Frd**	**p-Value**
1. S.A REITs must comply with a complex set of REIT qualification provisions; this may distract the management from other business concerns.	4 6.90	30 51.72	17 29.31	6 10.34	1 1.72	49.069	4	0.000
2. Under the JSE-listing requirements, a S.A REIT must pay at least 75% of its taxable earnings available for distribution to its investors each year. This could put a strain on the company in terms of funding its operations.	6 10.34	27 46.55	14 24.14	9 15.52	2 3.45	32.172	4	0.000
3. There is insufficient information available to potential and existing investors and companies in the listed property market about the implications of the new REIT listed property framework.	3 5.17	9 15.52	18 31.03	25 43.01	3 5.17	32.345	4	0.000
4.S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. This potentially reduces the profit potential of sales for S.A REITs.	0 0.00	8 13.79	18 31.03	30 51.72	2 3.45	31.103	3	0.000

Table 13 exhibits the questions that are related to the potential drawbacks of the new REIT legislation. These questions are structured to gain insight into any negative perception that the respondents may have of the REIT legislation according to the drawbacks that the questions address. After running statistical tests the response results to all four questions are statistically significant and have a p-value of less than 0.001.

Question 1 focuses on the ease at which management can adjust to the new REIT framework, specifically whether or not management may be distracted from other business concerns by complying with a complex set of REIT qualification provisions. 51.72% of the respondents disagreed that management may be distracted from other business concerns by complying with a complex set of REIT qualification provisions, 29.31% of the respondents were indifferent, 10.34% agreed, 1.72% strongly agreed and 6.90% strongly disagreed. Property analysts showed a strong perception of disagreement towards this statement. Investors showed some uncertainty, with 44.44% of the respondents neither agreeing nor disagreeing, 44.44% disagreeing and 11.11% agreeing with the statement.

Overall, it can be concluded that majority, which is 51.72%, of the respondents disagree with the statement that management will be distracted from business concerns, however there is still a meaningful portion, 29.31% of respondents that are indifferent and 10.34% of respondents that agree, therefore the majority response result must be taken with care.

Question 2 focused on the respondents perception of the impact that the requirement for S.A REITs to pay at least 75% of its taxable earnings available for distribution to its investors. 46.55% of participants disagreed with the statement that because S.A REITs pay at least 75% of its taxable earnings available for distribution to its investors each year it could put a strain on the company in terms of funding its operations, 10.43% strongly disagreed, 24.14% neither agreed nor disagreed, 15.52% agreed and 3.45% strongly agreed. With 10.34% of respondents strongly disagreeing and 46.55% of participants disagreeing, it can be concluded that the majority of participants have the perception that REITs will not be put under any additional strain due to the minimum distribution of 75% of the REITs taxable earnings.

Respondents to the questionnaire survey show mixed perceptions towards whether or not there is insufficient information available to potential and existing investors and companies in the listed property market, regarding the implications of the new S.A REIT. Investors tend to agree with this statement, with 50% agreeing and 11.11% strongly agreeing, whilst directors or owners of property companies disagree with this statement. Property analysts and legal and accounting professionals tend to fall between agreeing with this statement and being indifferent.

25 (43.01%) of the total 58 participants agree that insufficient information is available and 18 respondents (31.03%) neither agree nor disagree with this statement. The fact that 31.03% of the participants are indifferent shows that there is some level of uncertainty surrounding this issue. The mean value of the response to this question is 3.28; this suggests that respondents' perceptions are slightly skewed towards agreeing to this statement.

More than half (51.72%) of the respondents agreed that the profit potential of sales for S.A REITs are potentially reduced because S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. 3.45% of respondents strongly agreed, 31.03% of respondents neither agreed nor disagreed, 13.79% of respondents disagreed. It is interesting to note the when analyzing the results in context of the respondents occupational categories, majority of accounting and legal professional and property analysts agree with this statement.

The overall findings from Theme 3, based on the responses to the four questions are as follows. Majority of the respondents have the perception that management will potentially not be distracted from other business concerns by complying with a complex set of REIT qualification provisions and REITs will not be put under any additional strain due to the minimum distribution of 75% of the REITs taxable earning. Under the old structures of PUTs and PLSs, listed property companies maintained high payout ratios, up to 100% in certain cases, therefore adjusting to the required 75% payout ratio would not be a anomaly. This suggests that managers would potentially be able to ease into adhering to the new regulations as they convert to the REIT structure.

Potential drawbacks that the survey questionnaire has identified is that a significant proportion of respondents have the perception that the profit potential of sales for S.A REITs are likely to be reduced because S.A REITs may not claim depreciation allowances in respect of immovable property. Another potential weakness is that many of respondents (43.01% agree and 5.17% strongly agree), have the view the there is not sufficient information available to potential and existing investors and companies in the listed property market about the implications of S.A REITs. This question is very important because it gives an indication that more awareness needs to be made of the REIT legislation. Potentially the more knowledgeable stakeholders are of the REIT legislation the more advancement and efficiency will be contributed to the S.A listed property market.

4.2.4 Results of survey questionnaire: Theme 4

Table 14: Questions related to the current and future potential benefits of the new legislation

	Frequency Percentage					Chi-Square Test Results		
Questions	**Str. Disagrd**	**Disagrd**	**Neither**	**Agrd**	**Str. Agrd**	**Chi-Sq**	**Deg. Frd**	**p-Value**
1. The new REIT legislation will align the S.A listed property market to international standards; which will make the S.A listed property market more internationally competitive.	0 0.00	0 0.00	6 10.34	40 68.97	12 20.69	34.069	2	0.000
2. The new REIT legislation will encourage fund managers to include more SA REITs in their portfolios.	1 1.72	0 0.00	6 10.34	44 75.86	7 12.07	81.448	3	0.000
3. The new REIT legislation will lead to increased investment in the listed property market by local investors.	1 1.72	2 3.45	8 13.79	34 58.62	13 22.41	62.172	4	0.000
4. The new REIT legislation will bring increased liquidity to the S.A property market.	0 0.00	0 0.00	10 17.24	37 63.79	11 18.97	24.241	2	0.000
5. The introduction of the REITs legislation will improve the efficiency of the listed property market in the long term.	0 0.00	0 0.00	6 10.34	42 72.41	10 17.24	40.276	2	0.000
6. The introduction of REITs legislation will enable the S.A listed property market to achieve enhanced performance and growth in the long term.	0 0.00	0 0.00	7 12.07	41 70.69	10 17.24	36.655	2	0.000

Theme 4 includes 6 questions that are related to the current and future potential benefits of the REIT legislation. The results are presented in Table 14 above. The questions were designed to gain better insight into some of the perceptions that the respondents may have of the potential benefits of the REIT legislation. All six questions are statistically significant and have a p-value of less than 0.001.

The results from Question 1 indicates that a significant proportion of the respondents have the perception that the new REIT legislation will align the S.A listed property market to international standards. This will make the S.A listed property market more internationally competitive. 68.97% of respondents agreed and 20.69% strongly agreed to this statement. Majority of respondents from all the occupational categories, tended to agree with this statement.

Question 2, is imperative since it relates directly to the efficiency and success of the REIT legislation. If fund managers include more REITs in their portfolios it suggests that REITs are a valuable asset class and can provide significant benefits, whether it is for diversification, increased returns or both, to institutional and private investors. The results showed that there was a clear perception that majority of the respondents agreed (75.86%) that the REIT legislation would encourage fund managers to include more SA REITs in their portfolios. 12.07% of respondents strongly agreed, 10.34% of respondents were indifferent and only 1.72% (1 respondent) strongly disagreed.

This was further supported by the results based on the responses per an occupational category. Majority of respondents within each occupational category agreed with the statement. This indicates that respondents have the perception that REITs would be a good asset class for fund managers to include in their portfolios.

Questions 3 and 4 were structured to gauge the respondents' perception of the impact that the REIT legislation will have on the liquidity of the S.A listed property market. Majority of the respondents agreed (58.62%) and strongly agreed (22.41%) that the new REIT legislation will lead to increased investment in the listed property market by local investors. A significant proportion of respondents also agreed (63.79%) and strongly agreed (18.97%) that the new REIT legislation will bring increased liquidity to the S.A property market.

Results from the survey study indicate that respondents feel that the REIT legislation will lead to enhanced investments by local investors and improved liquidity in the South African listed property market. This provides a clear indication that respondents have the perception that the REIT legislation will have a positive impact on the activity and investment within the S.A property market.

Questions 5 and 6, focused on the respondents' perception of the long-term growth, efficiency and performance of REITs. To address the issue of long-term efficiency, 72.41% of the respondents agreed and 17.24% strongly agreed that the introduction of the REITs legislation would improve the efficiency of the listed property market in the long term. This indicates that respondents have the opinion that the introduction of the REIT legislation will enhance long-term efficiency of the S.A listed property market.

To address the issue of long-term performance and growth, 70.69% of respondents agreed and 17.24% strongly agreed that the introduction of REITs legislation would enable the S.A listed property market to achieve enhanced performance and growth in the long term. None of the respondents from any of the occupational groups disagreed (or strongly disagreed) that the REIT legislation would enhance long-term growth, perform or efficiency in the S.A listed property market.

Based on the questions in Theme 4, respondents have the perception that REIT legislation has both current and future potential benefits to offer the S.A listed property market. Respondents believe that the REIT legislation will lead to a more liquid and efficient property market, and encourage more investment from local investors. Respondents also have the perception that the REIT legislation will align the S.A listed property market with international standards and increase the international competitiveness. Finally, majority of respondents within each occupational category agreed with that the REIT legislation would encourage fund managers to include more SA REITs in their portfolios providing a clear indication that respondents have the perception that REITs would be a good asset class for fund managers to include in their portfolios.

Chapter 5: Conclusion

The REIT legislation was introduced to the South African property market on 1 May 2013. This paper has researched some of the perceptions surrounding the implications of the legislation and therefore provides an important insight into the perceived effectiveness of the REITs legislation from a selected sample of informed and interested individuals.

All stakeholders in the listed property market will be impacted by the introduction of the REIT legislation and therefore any attempt to gain early insight into this new listed property structure is imperative. This insight would be of particular importance to fund managers, who could potentially benefit from these findings. This chapter provides the conclusion to the paper, including a summary of the findings, the main inferences from documented results, and suggestions for further research.

5.1 Summary of Findings

The results of the survey questionnaire were analyzed according to 4 unifying themes. The questions were placed within these themes because they helped create an enhanced and clearer understanding of the results. A Chi-square statistical test was conducted and all the questions were shown to be statistically significant at a 0.001 significance level.

Theme 1 was based on the REIT legislation and its suitability to the S.A listed property market. Theme 1 consists of 4 questions that were used to gauge whether or not stakeholders within the S.A. listed property market perceive the new REIT legislation as a suitable and welcomed introduction. The apparent perception shown from the responses to the four questions was that stakeholders in the South African listed property market are in favor of the REIT legislation and that it is suitable and a welcomed introduction.

Respondents also have the perception that the REIT legislation is easier and simpler to comprehend relative to the old legislation of PUTs and PLSs and that a change to the REIT legislation will be advantageous. This could potentially lead to many existing listed property companies adopting the REIT legislation.

Theme 2 consists of 4 questions that are related to the new regulation and tax dispensation of the REIT legislation. Based on the responses to the four questions in Theme 2, it can be inferred that the respondents' perception is in favor of the idea that the REIT legislation allows for potentially improved regulation and tax dispensation. There is a positive perception by the majority of respondents that the REIT legislation leads to improved transparency, enhanced governance and greater investor protection within the S.A listed property market. The majority of respondents from all occupational groups also perceive the REIT legislation to create greater tax certainty and uniformity and simplicity to facilitate international investment for international investors.

A significant proportion of participants also support the view that because REITs are exempt from capital gain taxes it provides potential benefits to stakeholders. The responses to Theme 2, further suggests that respondents have the perception that a transition to the REITs framework would be advantageous, from a tax dispensation and regulation basis, to both currently and potentially listed property companies in S.A.

Theme 3 focuses on the potential drawbacks of the new REIT legislation. The overall findings from Theme 3, based on the responses to the four questions are as follows. Majority of the respondents have the perception that management will potentially not be distracted from other business concerns by complying with a complex set of REIT qualification provisions and REITs will not be put under any additional strain due to the minimum distribution of 75% of the REITs taxable earning.

Under the old structures of PUTs and PLSs, listed property companies maintained high payout ratios, up to 100% in certain cases, therefore adjusting to the required 75% payout ratio would not be an anomaly. This suggests that managers would potentially be able to ease into adhering to the new regulations as they convert to the REIT structure.

Potential drawbacks that the research identified is that a significant proportion of respondents have the perception that the profit potential of sales for S.A REITs are likely to be reduced because S.A REITs may not claim depreciation allowances in respect of immovable property. Another potential weakness is that many of respondents (43.01% agree and 5.17% strongly agree) have the opinion the there is not sufficient information about the implications of the new REIT framework available to potential and existing investors and companies in the listed property market.

This question is very important because it gives an indication that more awareness needs to be made of the REIT legislation. Potentially the more knowledgeable stakeholders are of the REIT legislation the more advancement and efficiency will be contributed to the S.A listed property market.

Theme 4 was designed to ascertain how respondents perceive both the current and future potential benefits that REIT legislation has to offer the S.A listed property market. The majority of the respondents believe that the REIT legislation will lead to a more liquid and efficient property market, and encourage more investment from local investors.

Respondents also have the perception that the REIT legislation will align the S.A listed property market with international standards and increase the international competitiveness. Finally, the majority of respondents within each occupational category agreed that the REIT legislation would encourage fund managers to include more SA REITs in their portfolios providing a clear indication that respondents have the perception that REITs would be a good asset class for fund managers to include in their portfolios.

5.2 Key takeaways

Overall, based on the perceptions of the respondents in the questionnaire, the following can be surmised**.**

Firstly, the South African listed property market was clearly in need of a change in legislation to encourage more investments by both local and foreign investors and to align the regulations and tax dispensation with international standards. The REIT legislation is evidently a welcomed introduction and is considered to be suitable to the S.A listed property market. There is confidence in the REIT structure being easier and simpler to comprehend and there is a strong perception that a change to the REIT legislation would be advantageous to listed property companies in S.A.

There is also a strong perception that by changing to the REIT structure, South African listed property companies would be more aligned to international standards and this would lead to increased uniformity and simplicity to facilitate international investments, as well as enabling the local market to become more internationally competitive. By aligning the standards of the S.A listed property market with international standards, it would create greater investor confidence and would potentially lead to increased liquidity and foreign investments in the asset class.

Secondly, it can be inferred that by property companies complying with the regulations and requirements of the REIT legislation, such as meeting the listing requirements as set out by the JSE, it allows for increased transparency, governance and investor protection within the S.A listed property market. There is also a strong perception that the introduction of the REITs legislation would lead to increased investment by local investors and enhanced liquidity in the S.A listed property market.

The listing of REITs on the JSE increases the visibility of listed property as an asset class. The JSE is regarded as world class when it comes to global financial exchanges. The fact that REITs will be listed on the JSE and regulated by it will no doubt give investors confidence to trade in the asset class. The increased regulation that comes with listing would give potential investors a newfound comfort in holding these instruments as part of their portfolios.

Institutional investors who hold large parts of their portfolios in listed property assets will find increased liquidity invaluable, especially when rebalancing their portfolios or switching from one listed property asset to another. In the past this had been an onerous task for portfolio managers given the matter of liquidity constraints.

Considering that emerging markets are now a crucial part of most money manager's asset allocation universe, given the attractive yield uplifts on offer, it is imperative that as an emerging market nation, such as S.A, can offer investment opportunities through a channel that is perceived as well regulated and transparent, similar to the way they are offered in the U.S. and Europe. This is a differentiation factor that will separate S.A from their emerging market peers in the eyes of money managers.

Following the events of the 2008 credit crisis, there has been a global increase in legislation and scrutiny. Investors, especially the large foreign institutions, with billions of dollars of assets under management, have become used to operating in a world of increased transparency and oversight. This is especially due to the accelerated process of change and increased supervision that has been adopted by the U.S. and a large contingent of European countries that have historically been international finance hubs. This renders the S.A. REIT legislation wise and timely.

From a taxation perspective, it can be inferred that the tax dispensation of S.A REITs is potentially beneficial to both investors and listed property companies. S.A REITs are exempt from capital gain taxes which allows them to reinvest any capital gains made on the disposal of assets in order to generate further returns and they allow for the unified tax treatment of all listed property companies, thus creating greater tax certainty. This would potentially encourage investment in REITs, specifically by large institutional investors who find tax certainty imperative when constructing their portfolios. Listed property companies would also be motivated to change to the REIT structure to benefit from potentially higher yields and greater tax certainty.

The results of the study also supported the idea that complying with the REIT qualification provisions would not distract management from other business concerns or put additional strain on the company in terms of funding its operations. This suggests that managers would potentially be able to ease into adhering to the new regulations as they convert to the REIT structure.

Further, the study identified some potential drawbacks of the REIT legislation. Respondents have the perception that the profit potential of sales for S.A REITs are likely to be reduced because S.A REITs may not claim depreciation allowances in respect of immovable property. Another potential weakness is that many of respondents have the opinion the there is not sufficient information available to potential and existing investors and companies in the listed property market about the implications of the S.A. REIT legislation. To ensure the success of S.A REITs, all stakeholders must be knowledgeable of the regulations, tax dispensation and listing requirements. This highlights an issue that regulators within the listed property market can address by creating more awareness of the legislation.

There is a strong perception that the REIT legislation will lead to a more liquid and efficient property market and enhanced investment from local investors. It can also be inferred that the introduction of the REIT legislation will lead to improved efficiency as well as enhanced long-term performance and growth of the S.A listed property market.

Finally, there is a strong perception that the new REIT legislation would encourage fund managers to include more SA REITs in their investment portfolios. If fund managers were to include more REITs in their portfolios it would suggest that REITs are a valuable asset class and can provide significant benefits, whether it is for diversification, increased returns or both, to institutional and private investors. This clearly supports the idea that REITs are seen as potentially superior investment vehicles that could provide significant benefits to investors.

5.3 Suggestions for Future Research

The findings of this paper suggest that there are significant opportunities to conduct research on the REIT legislation in the future. The introduction of the REIT legislation to the S.A listed property market is relatively new; therefore research can be conducted on an on-going basis to determine if the perceptions that were gauged from this paper hold in the future.

Once more data becomes available on the performance of REITs, comparative analysis can be conducted, to determine if the property companies following the REIT legislation outperform those under the PUT and PLS legislation. A time-series analysis can be conducted on the liquidity of the listed property market prior to and after the introduction of REITs, to determine whether or not the introduction of the legislation has lead to increased activity within the listed property market and investments by both foreign and local investors.

Researching whether or not fund managers include more REITs in their investment portfolios would be an imperative study to conduct. This would provide an indication of the success of REITs as an asset class. It would also be of interest to measure the efficiency and growth of the S.A listed property market prior to and after the introduction of REITs. A comparative analysis could also be conducted between the performance of REITs within S.A and other similar economies or other developed or developing economies.

These represent some of the research that can be conducted in the future based on the findings of this paper. There will continue to be a need for more research on this area in the future, based on changes that take place in the property market and as new research is developed and more knowledge of the REIT legislation within the S.A or global context is established.

Chapter 6: Bibliography

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Appendix A: Current status and level of knowledge of respondents summarized by occupation and the descriptive statistics of each question

Question 1 pertains to the level of knowledge that the respondents have of REITs and Question 2 categorizes respondents according to their occupation.

1.How would you rate your knowledge of the new REITs legislation?

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	3.34	0.83	0.91	58	58

How would you rate your knowledge of the new REITs legislation?		
Response	Frequency	Percentage (%)
Very poor	3	5.17
Poor	4	6.90
Fair	25	43.10
Good	22	37.93
Very Good	4	6.90
Total	58	100.00

2. Which of the following best describes your current status?

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	2.81	2.26	1.50	58	58

Which of the following best describes your current status?				
Response	Frequency	Percentage	Cumulative Frequency	Cumulative Percentage
Property Analyst	14	24.14	14	24.14
Investor	18	31.03	32	55.17
Director or owner of Property Company	2	3.45	34	58.62
Accounting or legal professional	13	22.41	47	81.03
Interested party	11	18.97	58	100.00

Appendix B: Responses summarized by occupation and descriptive statistics of each question

Questions are listed according to 4 themes; Theme 1: Questions related to the new legislation and it suitability; Theme 2: Questions related to the new regulation and tax dispensation of the legislation; Theme 3: Questions related to the potential drawbacks of the new REIT legislation and Theme 4: Questions related to the current and future potential benefits of the new legislation.

Theme 1: Questions related to the new legislation and it suitability.

3. The S.A listed property market was in need of a change in terms of regulation and tax dispensation.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	3.90	0.41	0.64	58	58

Which of the following best describes your current status?	The S.A listed property market was in need of a change in terms of regulation and tax dispensation.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	11 78.06	3 21.4	14 100.0
Investor	1 5.56	0 0.00	5 27.78	12 66.67	0 0.00	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	9 69.23	2 15.38	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	8 72.73	1 9.09	11 100.0
Total	1 1.72	0 0.00	9 15.52	42 72.41	6 10.34	58 100.0

4. The new REIT legislation (S.A REIT) is a welcome introduction.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	4.00	0.49	0.70	58	58

Which of the following best describes your current status?	The new REIT legislation (S.A REIT) is a welcome introduction.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	1 7.14	11 78.57	2 14.29	14 100.0
Investor	1 5.56	0 0.00	3 16.67	11 61.11	3 16.67	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	0 0.00	2 100.0	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	8 61.54	3 23.08	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	8 72.73	1 9.09	11 100.0
Total	1 1.72	0 0.00	8 13.79	38 65.52	11 18.97	58 100.0

5. Existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) will find it advantageous to change to the S.A. REIT listed property structure.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
2	5	3.98	0.33	0.58	58	58

Which of the following best describes your current status?	Existing Public Unit Trusts (PUTs) and Public Loan Stocks (PLSs) will find it advantageous to change to the S.A. REIT listed property structure.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	12 85.71	2 14.29	14 100.0
Investor	0 0.00	0 0.00	2 11.11	12 66.67	4 22.22	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	0 0.00	2 100.0	2 100.0
Accounting or legal professional	0 0.00	1 7.69	1 7.69	11 84.62	0 0.00	13 100.0
Interested party	0 0.00	0 0.00	4 36.36	7 63.64	0 0.00	11 100.0
Total	0 0.00	1 1.72	7 12.07	42 72.41	8 13.79	58 100.0

6. The new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.00	0.28	0.53	58	58

Which of the following best describes your current status?	The new REIT legislation is more simplified and easier to comprehend than PUTs and/or PLSs.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	13 92.86	1 7.14	14 100.0
Investor	0 0.00	0 0.00	3 16.67	12 66.67	3 16.67	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	1 7.69	9 69.23	3 23.08	13 100.0
Interested party	0 0.00	0 0.00	4 36.36	6 54.55	1 9.09	11 100.0
Total	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	58 100.0

Theme 2: Questions related to the new regulation and tax dispensation of the legislation.

7. The new REITs tax dispensation (the inclusion of section 25 BB to the Income Tax Act No. 58 of 1962) allows for a unified tax treatment of PUTs and PLSs. This will create greater tax certainty for investors.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.05	0.26	0.51	58	58

Which of the following best describes your current status?	The new REITs tax dispensation (the inclusion of section 25 BB to the Income Tax Act No. 58 of 1962) allows for a unified tax treatment of PUTs and PLSs. This will create greater tax certainty for investors.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	1 7.14	11 78.57	2 14.29	14 100.0
Investor	0 0.00	0 0.00	2 11.11	16 88.89	0 0.00	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	1 50.0	1 50.0	2 100.0
Accounting or legal professional	0 0.00	0 0.00	1 7.69	6 46.15	6 46.15	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	9 81.82	0 0.00	11 100.0
Total	0 0.00	0 0.00	6 10.34	43 74.14	9 15.52	58 100.0

8. S.A REITS are exempt from capital gains tax (this excludes financial instruments which are deemed not to be of a capital nature in the new REIT legislation). This offers significant benefits to S.A REITs because they can fully reinvest any capital gains made on the disposal of assets in order to generate further returns.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	3.91	0.33	0.57	58	58

Which of the following best describes your current status?	S.A REITS are exempt from capital gains tax (this excludes financial instruments which are deemed not to be of a capital nature in the new REIT legislation). This offers significant benefits to S.A REITs because they can fully reinvest any capital gains made on the disposal of assets in order to generate further returns.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	2 14.29	10 71.43	2 14.29	14 100.0
Investor	0 0.00	0 0.00	6 33.33	10 55.56	2 11.11	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	0 0.00	2 100.0	2 100.0
Accounting or legal professional	0 0.00	0 0.00	3 23.08	9 69.23	1 7.69	13 100.0
Interested party	0 0.00	0 0.00	1 9.09	10 90.91	0 0.00	11 100.0
Total	0 0.00	0 0.00	12 20.69	39 67.24	7 12.07	58 100.0

9. Neither the PLS nor PUT offers international investors the uniformity and simplicity to facilitate international investment. The introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.00	0.28	0.53	58	58

Which of the following best describes your current status?	Neither the PLS nor PUT offers international investors the uniformity and simplicity to facilitate international investment. The introduction of S.A REITs offers international investors the uniformity and simplicity to facilitate international investment.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	13 92.86	1 7.14	14 100.0
Investor	0 0.00	0 0.00	3 16.67	15 83.33	0 0.00	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	0 0.00	2 100.0	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	7 53.85	4 30.77	13 100.0
Interested party	0 0.00	0 0.00	3 27.27	7 63.64	1 9.09	11 100.0
Total	0 0.00	0 0.00	8 13.79	42 72.41	8 13.79	58 100.0

10. S.A REITs are regulated by the JSE and are required to adhere to the regulatory rules set out in the listing requirements Section 13. This allows for increased transparency, governance and investor protection within the S.A listed property market.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
2	5	4.07	0.28	0.53	58	58

Which of the following best describes your current status?	S.A REITs are regulated by the JSE and are required to adhere to the regulatory rules set out in the listing requirements Section 13. This allows for increased transparency, governance and investor protection within the S.A listed property market.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	13 92.86	1 7.14	14 100.0
Investor	0 0.00	0 0.00	2 11.11	13 77.22	3 16.67	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	1 50.0	1 50.0	2 100.0
Accounting or legal professional	0 0.00	1 7.69	0 0.00	10 76.92	2 15.38	13 100.0
Interested party	0 0.00	0 0.00	1 9.09	8 72.73	2 18.18	11 100.0
Total	0 0.00	1 1.72	3 5.17	45 77.59	9 15.52	58 100.0

Theme 3: Questions related to the potential drawbacks of the new REIT legislation.

11. S.A REITs must comply with a complex set of REIT qualification provisions; this may distract the management from other business concerns.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	2.48	0.71	0.84	58	58

Which of the following best describes your current status?	S.A REITs must comply with a complex set of REIT qualification provisions; this may distract the management from other business concerns.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	11 78.57	3 21.43	0 0.00	0 0.00	14 100.0
Investor	0 0.00	8 44.44	8 44.44	2 11.11	0 0.00	18 100.0
Director or owner of Property Company	1 50.0	1 50.0	0 0.00	0 0.00	0 0.00	2 100.0
Accounting or legal professional	2 15.38	7 53.85	3 23.08	0 0.00	1 7.69	13 100.0
Interested party	1 9.09	3 27.27	3 27.27	4 36.36	0 0.00	11 100.0
Total	4 6.90	30 51.72	17 29.31	6 10.34	1 1.72	58 100.0

12. Under the JSE-listing requirements, a S.A REIT must pay at least 75% of its taxable earnings available for distribution to its investors each year. This could put a strain on the company in terms of funding its operations.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	2.55	0.99	0.99	58	58

Which of the following best describes your current status?	Under the JSE-listing requirements, a S.A REIT must pay at least 75% of its taxable earnings available for distribution to its investors each year. This could put a strain on the company in terms of funding its operations.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	7 50.0	3 21.43	3 21.43	1 7.14	14 100.0
Investor	0 0.00	8 44.44	7 38.89	2 11.11	1 5.56	18 100.0
Director or owner of Property Company	1 50.0	1 50.0	0 0.00	0 0.00	0 0.00	2 100.0
Accounting or legal professional	2 15.38	8 61.54	1 7.69	2 15.38	0 0.00	13 100.0
Interested party	3 27.27	3 27.27	3 27.27	2 18.18	0 0.00	11 100.0
Total	6 10.34	27 46.55	14 24.14	9 15.52	2 3.45	58 100.0

13. There is insufficient information available to potential and existing investors and companies in the listed property market about the implications of the new REIT listed property framework.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	3.28	0.94	0.97	58	58

Which of the following best describes your current status?	There is insufficient information available to potential and existing investors and companies in the listed property market about the implications of the new REIT listed property framework.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	1 7.14	2 14.29	4 28.57	6 42.86	1 7.14	14 100.0
Investor	0 0.00	2 11.11	5 27.78	9 50.0	2 11.11	18 100.0
Director or owner of Property Company	1 50.0	1 50.0	0 0.00	0 0.00	0 0.00	2 100.0
Accounting or legal professional	1 7.69	1 7.69	5 38.46	6 46.15	0 0.00	13 100.0
Interested party	0 0.00	3 27.27	4 36.36	4 36.36	0 0.00	11 100.0
Total	3 5.17	9 15.52	18 31.03	25 43.01	3 5.17	58 100.0

14. S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. This potentially reduces the profit potential of sales for S.A REITs.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
2	5	3.45	0.60	0.78	58	58

Which of the following best describes your current status?	S.A REITs may not claim depreciation allowances in respect of immovable property, which prevents recoupments from arising in respect of the sale of immovable property. This potentially reduces the profit potential of sales for S.A REITs.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	3 21.43	3 21.43	8 57.14	0 0.00	14 100.0
Investor	0 0.00	0 0.00	10 55.56	7 38.89	1 5.56	18 100.0
Director or owner of Property Company	0 0.00	1 50.0	1 50.0	0 0.00	0 0.00	2 100.0
Accounting or legal professional	0 0.00	3 23.08	0 0.00	10 76.92	0 0.00	13 100.0
Interested party	0 0.00	1 9.09	4 36.36	5 45.45	1 9.09	11 100.0
Total	0 0.00	8 13.79	18 31.03	30 51.72	2 3.45	58 100.0

Theme 4: Questions related to the current and future potential benefits of the new legislation.

15. The new REIT legislation will align the S.A listed property market to international standards; which will make the S.A listed property market more internationally competitive.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.10	0.30	0.55	58	58

Which of the following best describes your current status?	The new REIT legislation will align the S.A listed property market to international standards; which will make the S.A listed property market more internationally competitive.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	1 7.14	11 78.57	2 14.29	14 100.0
Investor	0 0.00	0 0.00	2 11.11	15 83.33	1 5.56	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	0 0.00	2 100.0	2 100.0
Accounting or legal professional	0 0.00	0 0.00	1 7.69	8 61.54	4 30.77	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	6 54.55	3 27.27	11 100.0
Total	0 0.00	0 0.00	6 10.34	40 68.97	12 20.69	58 100.0

16. The new REIT legislation will encourage fund managers to include more SA REITs in their portfolios.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	3.97	0.38	0.62	58	58

Which of the following best describes your current status?	The new REIT legislation will encourage fund managers to include more SA REITs in their portfolios.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	1 7.14	9 64.29	4 28.57	14 100.0
Investor	1 5.56	0 0.00	1 5.56	15 83.33	1 5.56	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	9 69.23	2 15.38	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	9 81.82	0 0.00	11 100.0
Total	1 1.72	0 0.00	6 10.34	44 75.86	7 12.07	58 100.0

17. The new REIT legislation will lead to increased investment in the listed property market by local investors.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
1	5	3.97	0.67	0.82	58	58

Which of the following best describes your current status?	The new REIT legislation will lead to increased investment in the listed property market by local investors.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	2 14.29	8 57.14	4 28.57	14 100.0
Investor	1 5.56	0 0.00	2 11.11	10 55.56	5 27.78	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	1 50.0	1 50.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	1 7.69	2 15.38	7 53.85	3 23.08	13 100.0
Interested party	0 0.00	1 9.09	1 9.09	8 72.73	1 9.09	11 100.0
Total	1 1.72	2 3.45	8 13.79	34 58.62	13 22.41	58 100.0

18. The new REIT legislation will bring increased liquidity to the S.A property market.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.02	0.37	0.61	58	58

Which of the following best describes your current status?	The new REIT legislation will bring increased liquidity to the S.A property market.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	1 7.14	11 78.57	2 14.29	14 100.0
Investor	0 0.00	0 0.00	3 16.67	10 55.56	5 27.78	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	3 23.08	8 61.54	2 15.38	13 100.0
Interested party	0 0.00	0 0.00	3 27.27	6 54.55	2 18.18	11 100.0
Total	0 0.00	0 0.00	10 17.24	37 63.79	11 18.97	58 100.0

19. The introduction of the REITs legislation will improve the efficiency of the listed property market in the long term.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.07	0.28	0.53	58	58

Which of the following best describes your current status?	The introduction of the REITs legislation will improve the efficiency of the listed property market in the long term.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	11 78.57	3 21.43	14 100.0
Investor	0 0.00	0 0.00	2 11.11	13 77.22	3 16.67	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	8 61.54	3 23.08	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	8 72.73	1 9.09	11 100.0
Total	0 0.00	0 0.00	6 10.34	42 72.41	10 17.24	58 100.0

20. The introduction of REITs legislation will enable the S.A listed property market to achieve enhanced performance and growth in the long term.

Min Value	Max Value	Average Value	Variance	Standard Deviation	Total Responses	Total Respondents
3	5	4.05	0.30	0.54	58	58

Which of the following best describes your current status?	The introduction of REITs legislation will enable the S.A listed property market to achieve enhanced performance and growth in the long term.					
Frequency Percentage	Strongly Disagree	Disagree	Neither agree or disagree	Agree	Strongly Agree	Total
Property Analyst	0 0.00	0 0.00	0 0.00	11 78.57	3 21.43	14 100.0
Investor	0 0.00	0 0.00	3 16.67	12 66.67	3 16.67	18 100.0
Director or owner of Property Company	0 0.00	0 0.00	0 0.00	2 100.0	0 0.00	2 100.0
Accounting or legal professional	0 0.00	0 0.00	2 15.38	8 61.54	3 23.08	13 100.0
Interested party	0 0.00	0 0.00	2 18.18	8 72.73	1 9.09	11 100.0
Total	0 0.00	0 0.00	7 12.07	41 70.69	10 17.24	58 100.0